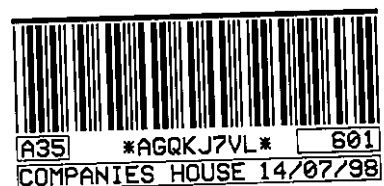


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T&N plc Annual Report and Accounts 1997



Review of operations

Trading

The Group performed strongly in 1997 with profit reaching record levels. Profit before tax reached £190.1m compared with a loss of £(388.3)m the previous year. After excluding exceptional gains of £43.8m on disposals and bid costs of £10m, 'underlying' profit before tax was £156.3m compared with £151.7m the previous year on a like for like basis. Operating margins of continuing businesses rose by 1.4 points to 10.5% as the benefits of the Group's productivity programmes came through. Cash flow remained strong.

Sales of continuing businesses (i.e. excluding disposals) fell from £1,814m to £1,764m after adverse exchange rate translation effects of £153m. At constant exchange rates, sales grew by 4%. Operating profit of continuing businesses, excluding acquisitions, rose by £7m to £172m in spite of adverse exchange effects of £10m. Acquisitions, principally the Metal Leve articulated pistons business acquired in June 1997, performed strongly and accounted for £30m of the increase in sales and £3m of the increase in operating profit.

All of the Group's product groups showed improvements in operating margins over the previous year with Sealing, Friction and Piston Products, in particular, showing significant progress. Volumes in the final months of the year were particularly strong. The Group's strong proprietary technology allowed it to cope with the transaction effect of adverse currency movements. Exports from the UK were down by £33m to £246m, mainly because of disposals. Expenditure of R&D was £52m, similar to the previous year.

Exceptional items

In accordance with FRS3, statutory operating profit has been charged with £10m in respect of bid costs relating to the prospective acquisition of the Group by Federal-Mogul Corporation. The offer from Federal-Mogul Corporation remains subject to regulatory clearance.

Asbestos-related disease charges in the period were nil (1996: £515m).

The 1997 results include an exceptional credit of £44m comprising:

- £12m (after goodwill clawback of £4m) relating to the disposal of businesses and properties, principally the sale of the Flexitallic and Tenmat operations, less a partial provision against the outstanding receivable from the sale, in 1996, of the Group's Zimbabwe mining interests. The Group has received assurances from the purchasers of these interests that the amounts owing will be repaid in full once current local economic problems have eased.
- £32m from the sale and re-negotiation of options over Kolbenschmidt ('KS'), the leading German manufacturer of pistons. In March 1997, the Group received £13m from a profit sharing arrangement with Commerzbank AG following the Bank's sale to Rheinmetall AG of options previously held by T&N. T&N retained a call option over a further 6.7 million KS shares. During the year, this position was matched by a put option resulting in a gain of £19m from the release of provisions. The Group is currently negotiating the sale of its options; the proceeds are expected to be received in March.

Group interest was little changed on the previous year at £28m. Interest cover was 6.2 times, based on operating profit before exceptional items.

Profit attributable to minorities was unchanged at £5m. Taxation was £63m (1996 £8m), an effective tax rate of 33%, or 31% when bid costs (which are not allowable for tax relief) are excluded.

Earnings were £122m compared with negative £401m in 1996. Earnings per share were 22.9p (1996 negative 75.4p).

Shareholders' funds rose from £118m to £191m, reflecting the strong profit performance.

Dividends

In 1997, the Group declared dividends totalling £49m, comprising a first interim of 3p in lieu of the final 1996 dividend; a second interim of 3.2p at the time of the normal mid-year payment and a special closing dividend of 3p as part of the offer from Federal-Mogul Corporation. After these appropriations, retained earnings transferred to reserves totalled £73m (1996 negative £417m).

Cash flow

The Group continued to give high priority to cash flow during the year though the high level of sales in the fourth quarter led to a higher than normal level of receivables at the year end. As a result, cash from operations at £261m was £20m less than in the previous year. In spite of the higher volumes, inventory levels, on a comparable basis, fell by £14m to £222m. Since June 1995, inventories have been reduced by £53m, equivalent to a reduction of 19 stock days. Cash payable in respect of asbestos claims was down on the previous year at £57m (1996 £65m). Interest and tax payments absorbed £25m and £20m respectively, compared with £31m and £29m the previous year. Capital expenditure was £10m lower than in 1996 at £104m. Net cash inflow before acquisitions, divestments and the one-off payment for asbestos insurance was up by £26m to £63m.

Acquisitions, principally Metal Leve Inc, cost £37m while disposals generated £76m. The proceeds of the disposals were added to the asbestos fund and are shown separately in the balance sheet. In light of the bid received from Federal-Mogul Corporation, plans to invest the fund in long-term securities were postponed. The interest received on the funds was, however, sufficient to offset the unwinding of the discount on the asbestos provision. Dividend payments were down on the previous year from £32m to £18m as shareholders opted to take scrip in lieu of the second interim following the announcement of the offer from Federal-Mogul Corporation. Exchange rate effects on the sterling value of net debt were relatively small but favourable at £9m, compared with £43m favourable the previous year. Overall, the Group reduced its net debt by £13m in the year.

Asbestos

The established procedures for managing the Group's involvement in asbestos-related disease litigation continued to operate well during the year, notwithstanding the decision of the US Supreme Court in July 1997 to overturn the Georgine Settlement. The Company, working with the other members of the Center for Claims Resolution, is exploring alternative approaches to the litigation. In the United Kingdom, the claims processing procedures continue to operate well.

Satisfactory progress has been made towards eliminating the remaining US property damage claims against the Company, and only three cases remain pending. The likely expenditure in respect of these cases has been fully provided. The Chase Manhattan Bank has appealed against the decisions of the Jury and the Judge in T&N's favour in its property damage case. The Company has received legal advice that the appeal stands no realistic prospect of success.

Federal-Mogul bid

The bid by Federal-Mogul Corporation announced on 16 October 1997, was declared unconditional as to acceptances on 5 January 1998 by which date shareholders representing over 95% of the Company's issued share capital had indicated their acceptance. Closing of the bid depends upon receipt of appropriate regulatory clearances. Discussions are continuing with the relevant regulatory authorities in Europe and the USA.

Outlook

These results clearly display the strength and quality of the Group and its management in all product and market areas. Its activities are well placed to achieve further margin improvement and organic growth in the years ahead. They will provide a substantial contribution to its prospective new owners Federal-Mogul Corporation who hope to close the bid during March. Existing shareholders will then secure an early release of considerable shareholder value. At the same time the deal will provide the resources required to match the provision set up in 1996 to meet past and future asbestos liabilities.

17 February 1998

Directors' report

The directors of T&N plc ('the Company') present their annual report for the year ended 31 December 1997 together with the audited financial statements for the year. These will be laid before the shareholders at the Annual General Meeting to be held on 30 July 1998.

Principal activities

The principal undertakings are set out on page 36.

Turnover and results

The Group turnover for the year was £1,883m (1996 £2,038m) including turnover of associated undertakings of £84m (1996 £82m). Operating profit before asbestos-related costs was £177m (1996 £179m). A geographical distribution of turnover and operating profit before asbestos-related costs is given on pages 18 and 19.

The Group profit and loss account is set out on page 13 and shows the results and dividends paid for 1997.

The earnings per share was 22.9p (1996 loss per share of 75.4p reflecting the £515m charge for asbestos costs). Earnings per share before asbestos-related costs were 20.4p (1996 14.8p).

Research and development

The research and development activities of the Group continue to be directed principally towards the development of new products and to improving the performance and effectiveness of existing products. In 1997 expenditure amounted to £52m (1996 £53m).

Asbestos-related costs

The Company and certain subsidiaries are amongst many defendants named in a large number of court actions brought in the United States, and a smaller number of claims brought in the United Kingdom, relating to alleged asbestos-related diseases resulting from exposure to asbestos or products containing asbestos. The Company is also one of many defendants named in a small number of US property damage claims. Details regarding the charge in the accounts and further information is given in Note 29 to the accounts. The T&N companies involved in this litigation aim to pay fair and proper compensation to meritorious claimants. Non-meritorious claims are defended vigorously.

In relation to asbestos related disease claims brought in the United States, the Company and two of its subsidiaries (Flexitallic Inc and Ferodo America Inc) are members of the Center for Claims Resolution ("CCR"). The CCR provides to its members a comprehensive, high quality and cost effective claims handling and administration service in respect of US asbestos-related disease claims. The Company nominates one of the five voting directors on the CCR's Board of Directors. Members of the CCR contribute towards indemnity payments in each claim in which that member is named. Contributions to such indemnity payments are calculated on a case by case basis according to Sharing Agreements between the CCR's members.

In January 1993 the CCR's members were parties to a class action settlement, *Georgine et al v Amchem et al* ("the Georgine Settlement") the aim of which was to substitute an administrative system for dealing with asbestos-related disease claims against the CCR's members in place of Court procedures. In July 1997 the US Supreme Court overturned the Georgine Settlement, and the procedures established by that settlement ceased to operate shortly thereafter.

As announced on 27 November 1996, the Company has secured a £500m layer of insurance cover in the event that asbestos-related disease claims notified after 30 June 1996 where the exposure occurred prior to 1 July 1996 ("IBNR claims") exceed £690m. The premium payable in respect of such policy of insurance (£92m) was paid in January 1997, and is included in the total of asbestos-related payments of £149m.

The accounts include a provision in respect of the anticipated cost of resolving all asbestos-related disease claims notified prior to 1 July 1996, together with the estimated present value of IBNR claims, (£338m).

As at 31 December 1997, the Company was one of a large number of defendants named in three pending property damage cases pending in two jurisdictions. Full provision has been made in respect of the Company's anticipated expenditures in relation to such cases.

Share capital

During the year, the issued ordinary share capital was increased by 6,389,051 ordinary shares following the exercise of options under the Company's share option schemes and by 10,111,955 ordinary shares issued as scrip dividend. At the date of this report, a total of 22,683,911 shares have been reserved for options granted.

Since 31 December 1997, a further 32,032 share options have been exercised and the issued ordinary share capital at the date of this report is £219,494,481.

Capital reduction

At an Extraordinary General Meeting of the Company held on 27 December 1996, shareholders approved a reduction in the issued share capital of the Company by the cancellation of 60p of the capital paid up on each Ordinary Share, thereby reducing the nominal value of each issued Ordinary Share from £1 to 40p, and a reduction in the authorised share capital of the Company to £290,000,000 divided into 725,000,000 Ordinary Shares of 40p each.

Following approval by the High Court the reduction in the Company's share capital became effective on 30 January 1997.

Dividends

As a result of the capital reduction referred to above, the Company is, in general, only able to declare dividends out of profits arising after 1 January 1997. Accordingly, there was no final dividend for the year ended 31 December 1996.

The directors have declared three interim dividends during the year. The first interim dividend for 1997 of 3.0p per share replaced the 1996 final dividend. The second interim dividend was 3.2p per share. The third interim dividend of 3.0p per share is in place of a final dividend for 1997.

Acquisitions and disposals

On 16 June 1997 the Group acquired Metal Leve Inc, a manufacturer of articulated pistons, for £28.9m. On 27 February 1997 Michigan Stamping Corporation, which manufactures heat shields, was acquired for £1.3m. Details of the assets acquired are set out in Note 24 on page 32.

Disposals of non-core activities have continued during the year, producing total proceeds of £64.4m. The disposals include the Flexitallic and Tenmat businesses and Ferodo Caernarfon. Details of all disposals and of the assets disposed are set out in Note 3 on page 21.

Federal-Mogul Corporation

As announced on 16 October 1997, the boards of Federal-Mogul Corporation ("FM") and the Company agreed the terms of a recommended cash offer ("the Offer") made by Morgan Stanley & Co Limited on behalf of a wholly-owned indirect subsidiary of FM to acquire the entire issued share capital of the Company. The Offer, made on 13th November 1997, is in the sum of 260 pence for each T&N Ordinary Share, valuing the T&N Ordinary Share Capital at approximately £1.5 billion. The Offer was made subject to a number of conditions, including receipt of regulatory consents and confirmation being obtained in several countries, including the United States and a number of European countries.

On 5 January 1998 FM announced that valid acceptances of the Offer had been received in respect of 521,518,581 T&N Ordinary Shares (representing approximately 95.06% of the T&N Ordinary Share Capital), that the Offer has been declared unconditional as to acceptances, and that the Offer would remain open until further notice.

Discussions with the relevant regulatory authorities are continuing. At the request of FM and with the consent of the Company the Panel on Takeovers and Mergers ("the Panel") has agreed to an extension of the time allowed for the satisfaction of the remaining conditions, under Rule 31.7 of the City Code on Takeovers and Mergers, to 6 March 1998. The Panel has indicated that if it becomes necessary for FM to request a further extension of time allowed for satisfaction of such conditions the Panel will, in deciding whether or not to grant any such request, consider the possibility of introducing withdrawal rights during such additional period in respect of prior acceptances.

Directors and senior executives

The following served as directors of T&N plc throughout the year:

- Sir Colin Hope
- D A Harding
- A C McWilliam
- I F R Much
- T A Welsh
- R H Boissier
- Sir Terence Harrison
- Professor F R Hartley
- P S Lewis
- Sir Geoffrey Whalen

In addition:

- Mr Robert Beeston was appointed a Non-executive Director; on 1 March 1997;
- Mr David Carruthers died on 31 August 1997; and
- Mr Martin Bell retired as a Non-executive Director on 4 March 1997.

Mr David Carruthers served T&N as a valuable member of the Board for 15 years. The directors express their deepest sympathies to his family on his sudden death.

In accordance with the Articles of Association Mr Robert Beeston, who was appointed during the year, will retire and, being eligible, will offer himself for re-election at this year's Annual General Meeting.

In addition, the directors retiring by rotation are David Harding and Sir Terence Harrison who, being eligible, offer themselves for re-election.

Mr Harding has been an Executive Director of the Company since 1995.

Sir Terence Harrison has been a Non-executive Director of the Company since 1995.

Mr Harding has a service contract with the Company, details of which are given on page 11.

Sir Terence Harrison does not have a service contract with the Company.

Details of directors' shareholdings are set out on page 29 and details of options held on pages 10 to 11.

The Company maintains insurance against liabilities of its directors and officers.

Treasury policies

Group Treasury co-ordinates and manages its activities in accordance with policies and procedures approved by the Board and is subject to internal and external audit. The principal providers of the Group's borrowing and ancillary facilities are financial institutions with high credit ratings and with whom the Group has well established relationships.

Financial instruments are used to manage foreign exchange and interest rate risk.

Exposure to currency translation is managed by matching, wherever possible, a high proportion of net assets denominated in foreign currencies with borrowings in the same currencies. A high level of cover against transaction exposure is also maintained.

The major part of the Group's borrowings is on a variable interest rate basis and provided under revolving facilities. Short-term instruments such as bills and money market lines are also used. The Group carries committed facilities significantly in excess of its current borrowing requirements.

Employee and employment policies

The Group has over 28,000 employees of many nationalities located worldwide. Further information is given in Note 9 on page 23.

It is the Group's policy to provide equal opportunities to all employees. The Group provides appropriate training at all levels and is committed to help employees to develop their full potential by gaining relevant skills and experience.

Full and fair consideration is given to applications for employment made by the disabled. Employees who become disabled will be retained in employment wherever possible and, where necessary, appropriate retraining will be provided.

Group companies place considerable emphasis on regular and effective communications with employees on matters of concern to them. Group companies involve and consult employees on matters concerning the performance of their companies. The Group's employee review, 'Nexus', is issued twice a year in order to keep employees informed about the progress of the Group.

In 1996 the Group established a European Forum, in order to facilitate increased consultation and exchange of information amongst its employees on significant issues of a pan-European nature. The Forum comprises sixteen employees and eight management representatives drawn from the UK, Germany, France, Italy, Spain and the Czech Republic, where the Group has the majority of its European operations. The President of the Forum is Allan Welsh. The Forum provides information on a wide range of Group matters including business strategy, financial performance and objectives as well as developments in technology and human resource issues.

Creditor payment policy

Operating businesses are responsible for agreeing trading and payment terms with their suppliers. These terms vary with the industry and country involved. It is Group and Company policy that terms agreed are adhered to.

The average number of days' creditors outstanding at 31 December 1997 for the Company was 51 (1996 48 days).

General information

At the date of this report the Company had been notified of the following interests in 3% or more of the Company's called up share capital:

	No of shares	%
Funds managed or advised by:		
UBS UK Holding Ltd	127,231,269	23.79%
M&G Group plc	70,180,274	13.12%
Schroder Investment Management Ltd	65,032,885	11.88%
Chase Nominees Limited	27,686,818	5.18%

Contributions to UK charities in 1997 amounted to £178,000. No political contributions were made in 1997.

Auditors

Our auditors, KPMG Audit Plc, have indicated their willingness to continue in office. Accordingly, a resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By order of the Board

H F Baines
Secretary



17 February 1998

Corporate Governance

The Company has complied fully throughout the year with the provisions of the Cadbury Committee's Code of Best Practice on the Financial Aspects of Corporate Governance, as specified in the Listing Rules.

The Board

The Board currently comprises six non-executive, independent directors and five executive directors. The non-executive directors have a wide range of skills and other interests which enable them to contribute fully to the Board's decisions. All directors are appointed by the Board as a whole. The Board met eleven times during the year.

A number of matters are reserved for consideration by the full Board. Its principal responsibilities are to agree overall strategy and investment policy; to approve major capital expenditures, acquisitions and disposals; to monitor the performance of senior management; and to ensure that there are proper internal controls in place. To provide effective and proper management control, however, certain of the Board's powers have been delegated to committees.

The operational management of the Group is delegated by the Board to the Management Committee. That Committee meets monthly and acts on behalf of the Board under specific terms of reference. The Committee comprises all executive directors (other than the Chairman) together with other senior executives of the Company.

The Chairman's Committee, which normally meets twice each month, reviews, formulates and monitors strategic and other major issues on behalf of the Board pursuant to specific terms of reference. That Committee comprises the Chairman together with Messrs Much and Harding and the Company Secretary.

Audit Committee

The Audit Committee comprises all non-executive directors of the Company and operates on behalf of the Board under specific terms of reference. The Committee, which meets at least twice each year, receives and reviews reports from management, the internal auditors of the Group and the Group's external auditors in relation to the interim and annual accounts as well as the accounting and internal control systems in place throughout the Group. The Audit Committee has unrestricted access to the internal and external auditors. The Board ensures that, through this Committee, an objective and professional relationship is maintained with the Group's external auditors.

Internal financial controls

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. The objectives of the system are to provide reasonable assurance of the safeguarding of assets against unauthorised use or disposition; to ensure that proper accounting records are maintained; and to ensure that the financial information used within the business and for publication is reliable.

Although no system of internal financial controls can provide absolute assurance against material mis-statement or loss, the Group's system is designed to provide the directors with reasonable assurance that any problems are identified promptly and dealt with appropriately.

The internal controls are subject to detailed reviews by the Group's internal auditors, who work closely with the Group's external auditors. The external auditors have also reviewed the internal financial controls to the extent necessary to support their audit opinion. This process, together with the key procedures noted below, enables the directors to confirm that during the year they have reviewed the effectiveness of the system of internal financial control.

The key procedures which the directors have established with a view to providing effective internal financial controls are as follows:

- a decentralised organisation structure with defined limits of responsibility and authority to promote effective and efficient operations;
- an annual budgeting process with monthly comparison of actual results to budget. There is also a requirement for regular reforecasting of results, identifying key risks and opportunities. All budgets are presented to a panel of the executive directors by each business unit's management team, before being approved by the Board;
- monthly reporting of financial information to the Management Committee and the Board encompassing profit and loss, cash flow and balance sheet information and key operating ratios. The Company reports to shareholders twice a year;
- regular Board reporting on specific matters including litigation, treasury management, and foreign exchange exposures. Treasury management policies and activities are regulated by the Board;
- defined capital expenditure and other investment approval procedures, including due diligence requirements where businesses are being acquired or divested;
- each operating unit maintains controls and procedures appropriate to the business. It is a key requirement of the procedures that a written certificate is provided annually by the managing director and financial manager of each business confirming that they have reviewed the effectiveness of the system of internal financial control during the year;
- a commitment to best practice in external reporting.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Confirmation by KPMG Audit Plc

The Group's external auditors, KPMG Audit Plc have confirmed that, in their opinion, with respect to the above statements in relation to Internal Financial Controls and Going Concern the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement above, appropriately reflects the Company's compliance with the other paragraphs of the Cadbury Code of Best Practice specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

H F Baines

Secretary

17 February 1998

Directors' emoluments and interests

The Company has complied throughout the year with section A of the London Stock Exchange Listing Rules' best practice provisions relating to Remuneration Committees. The role of the Remuneration Committee is to establish Board policy in respect of terms of employment, including remuneration, for each executive director and certain other senior employees of the Company. In establishing its remuneration policy the Remuneration Committee gives full consideration to section B of the best practice provisions relating to remuneration policy. The Remuneration Committee seeks to encourage the enhancement of the Company's performance, and to ensure that executive directors are fairly, and responsibly, rewarded for their individual contributions.

The Remuneration Committee is composed entirely of non-executive directors. The members of the Remuneration Committee are:

R G Beeston, R H Boissier, Sir Terence Harrison, Professor F R Hartley, P S Lewis, and Sir Geoffrey Whalen.

In the case of executive directors other than the Chairman, the Remuneration Committee is assisted by the Chairman. For guidance, the Committee also uses published, specific, job-matched surveys of similar companies. From time to time, specific research is also commissioned.

Salaries are determined after a review of the performance of individual directors. Having regard to individual performance, the Committee believes that in order to ensure that it attracts and retains a management team with the appropriate skills, the Company's pay and benefits practice must be competitive, motivational, and must recognise and reward high standards of performance.

In addition to their basic salaries, performance-related incentive plans are in place for executive directors. Payments under these are dependent on achievement of a predetermined level of earnings per share set as a target each year by the Remuneration Committee. In 1997 the maximum bonus which could have been earned was 40% of basic salary.

The Company also operates a share option scheme for executives (including the executive directors) which was approved by shareholders on 4 May 1995 ('the 1995 Scheme'). The 1995 Scheme replaced earlier share option schemes which expired in April 1995. Options issued under the schemes may in general be exercised between three and ten years after the date granted. In the case of options granted under the 1995 Scheme, options may be exercised only if a performance criterion is satisfied. In summary, options granted under the 1995 Scheme are exercisable only if the earnings per share of the Company, before asbestos-related costs, less tax, are at least 4% per annum compound in excess of the increase in the Retail Price Index over a three-year period. The granting of share options is determined by the Remuneration Committee based upon the individual's remuneration, position and performance. Options are granted at an exercise price not less than the market price of the last dealing day prior to the date of grant.

Details of the emoluments or fees received by the directors of the Company in 1997 are set out overleaf.

Non-executive directors do not have service contracts with the Company, and receive directors' fees for their services. The levels of such fees are decided by the executive directors, and are normally reviewed once every two years. The non-executive directors do not participate in discussions about or determination of the level of their fees. Non-executive directors do not receive any benefits in addition to their directors' fees.

	1997 £000	1996 £000
Directors' remuneration		
Non-executive directors' fees	148	195
Executive directors:		
Remuneration	1,449	1,363
Performance-related bonuses	464	50
	1,913	1,413
Pension contributions to money purchase schemes	96	20
Total remuneration	2,009	1,433
Compensation for loss of office	-	564
Gains made on exercise of options	26	-
	2,035	1,997

The pension contributions of £96,000 (1996 £20,000) represent cash paid to Mr Harding's personal pension policy, as described on page 9.

	Salary £000	Benefits £000	Total bonuses £000	Total 1997 £000	Total 1996 £000
Executives					
Sir Colin Hope	310	9	124	443	320
D G Carruthers [#]	158	5	-	163	239
W H Everitt [*]	-	-	-	-	471
D A Harding	277	12	82	371	262
A C McWilliam [§]	160	10	64	234	39
I F R Much	300	12	120	432	267
A J P Sabberwal [*]	-	-	-	-	341
T A Welsh [§]	185	11	74	270	38
	1,390	59	464	1,913	1,977

[#] Mr D G Carruthers died on 31 August 1997.

^{*} Messrs W H Everitt and A J P Sabberwal retired during 1996.

[§] Messrs A C McWilliam and T A Welsh were appointed as Directors on 2 October 1996.

The benefits comprise primarily the provision of a company car, petrol for private use, medical insurance and mobile telephones.

	Non-executive fees	
	1997 £000	1996 £000
Non-executives		
R G Beeston [¶]	20	-
R H Boissier	23	23
M A Bell [#]	6	23
P J Byrom [*]	-	35
Sir Terence Harrison	23	23
Professor F R Hartley	26	26
P S Lewis	27	26
J D Pollard [§]	-	16
Sir Geoffrey Whalen	23	23
	148	195

[¶] Mr R G Beeston was appointed as a Non-executive Director on 1 March 1997.

[#] Mr M A Bell was a Director until 4 March 1997.

^{*} Mr P J Byrom was a Director until 30 June 1996.

[§] Mr J D Pollard died on 29 August 1996.

The executive directors, other than Mr Harding, are members of the T&N Retirement Benefits Scheme (1989) ('the Scheme') which will provide them, at normal retirement age, and subject to length of service, with a pension of up to two thirds of their final gross earnings including bonuses (averaged over three years). This applies to the above directors as well as to all other members of the Scheme. As the Rules of the Scheme provide that the pension benefits of all members of the Scheme are linked to earnings which include, where appropriate, fluctuating elements of remuneration and as the performance-related elements constitute a significant part of the total remuneration of the executive directors, the Remuneration Committee believes that it is appropriate to provide a pension based on the total package. There is no justification for treating the executive directors differently in this respect from all other members of the Scheme.

Mr Harding's personal pension and life assurance arrangements are as follows. The Finance Act 1989 introduced a limitation for employees joining the Company after 31 May 1989 on that part of an employee's pension which could be funded through an approved pension scheme. The limit was originally a pension on a salary of £60,000 (now £84,000). The Company has given a promise to Mr Harding that his pension shall, subject to certain reservations, be as if the limitation did not apply, and the Company will be responsible for making payment of any pension in excess of the approved limit. Additionally, the Finance Act 1989 capped life assurance payable through an approved pension scheme which would apply to Mr Harding, and the Company has taken out policies to cover that part of the life assurance which is in excess of the cap. Associated widow's benefits up to the cap limits are covered by restricted membership of the Scheme. The cost of these arrangements for Mr Harding was £96,000 (1996 £20,000).

Directors' pension entitlement	Age at 31 December 1997	Increase in accrued pension 1997 £000	Accrued annual pension entitlement at year end		Increase in transfer value in the year	
			1997 £000	1996 £000	1997 £000	1996 £000
Sir Colin Hope	65	—	236	210	—	—
M A Bell	61	—	—	98	—	—
D G Carruthers	—	—	—	141	—	258
W H Everitt	58	—	—	123	—	225
A C McWilliam	59	11	114	100	150	31
I F R Much	53	19	90	69	212	144
A J P Sabberwal	—	—	—	105	—	—
T A Welsh	46	15	74	57	128	13

The increase in accrued pension excludes inflationary increases.

The amounts for Messrs Bell and Everitt are up to the dates of their retirement of 30 June 1995 and 30 April 1996 respectively. Because Messrs Bell and Everitt retired by mutual agreement with the Company before their normal retirement age, in accordance with the rules of the scheme, there was no reduction made to the accrued pension at retirement to allow for its early payment. The estimated value of this early payment was £371,000 for Mr Bell and £530,000 for Mr Everitt.

The pension figures for Dr Sabberwal have been calculated up to his normal pension date of 1 December 1995. Although he continued in employment beyond that date, no additional pension benefit accrued to him subsequent to 1 December 1995.

The pension figures for Messrs McWilliam and Welsh have been calculated for the period for which they were Directors.

Sir Colin Hope reached normal retirement age on 1 December 1993. There is therefore no pension cost or increase in transfer value, despite his continued employment. The annual pension entitlement accruing to Sir Colin has increased during the year because he has not taken any pension. Therefore, his total accrued pension is increasing in value because it remains invested in the pension fund and it will be received over a smaller number of years.

A statement of directors' interests in shares of the Company is set out in Note 21 on page 29. All the interests are beneficial. No contract of significance existed during or at the end of the year in which any director of the Company was materially interested.

Details of the individual share options held by directors at 31 December 1997 were as follows:

	1.1.97	Number of current options Granted during year	Exercised during year	31.12.97	Exercise price	Market price on date exercised	Date of grant	Date from which exercisable	Expiry date
Sir Colin Hope	55,796	-	-	55,796	159.5	-	11.4.88	11.4.91	10.4.1998
	55,796	-	-	55,796	184.6	-	18.4.89	18.4.92	17.4.1999
	86,084	-	-	86,084	147.8	-	10.4.90	10.4.93	9.4.2000
	107,606	-	-	107,606	171.9	-	11.4.91	11.4.94	10.4.2001
	94,112	-	-	94,112	111.4	-	19.3.92	19.3.95	18.3.2002
	50,833	-	-	50,833	226.2	-	12.4.94	12.4.97	11.4.2004
(1)	8,145	-	-	8,145	119.7	-	28.10.96	1.2.2000	31.7.2000
	458,372	-	-	458,372					
D A Harding	100,000	-	-	100,000	159.0	-	10.5.95	10.5.98	9.5.2005
	50,000	-	-	50,000	137.0	-	6.9.96	6.9.99	5.9.2006
	-	200,000	-	200,000	157.5	-	2.9.97	2.9.2000	1.9.2007
	150,000	200,000	-	350,000					
A C McWilliam	16,739	-	16,739	-	159.5	250.5	11.4.88	11.4.91	10.4.1998
	22,318	-	-	22,318	184.5	-	18.4.89	18.4.92	17.4.1999
	21,521	-	-	21,521	147.7	-	10.4.90	10.4.93	9.4.2000
	43,043	-	-	43,043	171.9	-	11.4.91	11.4.94	10.4.2001
	29,279	-	-	29,279	111.4	-	19.3.92	19.3.95	18.3.2002
	15,685	-	-	15,685	172.1	-	15.4.93	15.4.96	14.4.2003
	25,416	-	-	25,416	226.2	-	12.4.94	12.4.97	11.4.2004
	10,166	-	-	10,166	207.5	-	6.10.94	6.10.97	5.10.2004
	50,000	-	-	50,000	159.0	-	10.5.95	10.5.98	9.5.2005
	20,000	-	-	20,000	134.5	-	2.10.96	2.10.99	1.10.2006
	-	90,000	-	90,000	157.5	-	2.9.97	2.9.2000	1.9.2007
(1)	-	7,174	-	7,174	135.9	-	2.5.97	1.7.2000	31.12.2000
	254,167	97,174	16,739	334,602					
I FR Much	80,704	-	-	80,704	171.9	-	11.4.91	11.4.94	10.4.2001
	78,427	-	-	78,427	111.4	-	19.3.92	19.3.95	18.3.2002
	20,913	-	-	20,913	172.1	-	15.4.93	15.4.96	14.4.2003
	25,416	-	-	25,416	226.2	-	12.4.94	12.4.97	11.4.2004
	100,000	-	-	100,000	159.0	-	10.5.95	10.5.98	9.5.2005
	-	150,000	-	150,000	157.5	-	2.9.97	2.9.2000	1.9.2007
(1)	2,846	-	-	2,846	158.1	-	7.5.91	1.7.98	31.12.1998
(1)	4,924	-	-	4,924	158.4	-	11.5.93	1.7.2000	31.12.2000
(1)	5,077	-	-	5,077	135.9	-	1.7.95	1.7.2000	31.12.2000
(1)	2,215	-	-	2,215	155.7	-	3.5.96	1.7.2001	31.12.2001
	320,522	150,000	-	470,522					

(1) These options have been granted under the Savings-Related Scheme. All other options have been granted under the Executive Scheme.

Details of the individual share options held by directors at 31 December 1997 continued

	1.1.97	Number of current options Granted during year	Exercised during year	31.12.97	Exercise price	Market price on date exercised	Date of grant	Date from which exercisable	Expiry date
T A Welsh	43,043	-	-	43,043	171.9	-	11.4.91	11.4.94	10.4.2001
	41,827	-	-	41,827	111.4	-	19.3.92	19.3.95	18.3.2002
	15,685	-	-	15,685	172.1	-	15.4.93	15.4.96	14.4.2003
	25,416	-	-	25,416	226.2	-	12.4.94	12.4.97	11.4.2004
	50,000	-	-	50,000	159.0	-	10.5.95	10.5.98	9.5.2005
	20,000	-	-	20,000	134.5	-	2.10.96	2.10.99	1.10.2006
	-	125,000	-	125,000	157.5	-	2.9.97	2.9.2000	1.9.2007
(1)	13,274	-	13,274	-	101.7	182.0	6.5.92	1.6.97	1.12.1997
(1)	1,015	-	-	1,015	135.9	-	1.7.95	1.7.2000	31.12.2000
(1)	2,882	-	-	2,882	119.7	-	28.10.96	1.2.2002	31.7.2002
(1)	-	8,192	-	8,192	151.6	-	22.10.97	1.2.2003	31.7.2003
	213,142	133,192	13,274	333,060					

(1) These options have been granted under the Savings-Related Scheme. All other options have been granted under the Executive Scheme. The following directors had options which lapsed during the year: Sir Colin Hope (66,955 shares), A C McWilliam (39,057 shares) and T A Welsh (17,855 shares). The market value of the shares at 31 December 1997 was 245.0p. The range during the year was from 123.0p to 256.0p.

External appointments

To broaden their experience, the Company encourages directors to become non-executive directors of other leading companies, subject in every case to Board approval, the time spent being reasonable, and there being generally not more than two such appointments per person. The policy relating to fees is that fees for up to two appointments may be retained by the executive director.

Directors' service contracts

The Chairman has a service contract which is terminable by him on twelve months' notice expiring at any time and by the Company as follows:

- between 1 June 1996 and 31 May 1999, by the Company giving not less than twelve months' notice to expire at any time;
- from 1 June 1999, by the Company giving notice at any time to expire on 31 May 2000, provided that no notice shall expire after, and the service contract will in any event terminate (if not terminated sooner) on 31 May 2000.

The other executive directors each have service contracts which are terminable by them on six months' notice expiring at any time and by the Company giving not less than two years' notice, to expire at any time.

The Remuneration Committee believes that it is necessary to offer service contracts with notice periods in excess of twelve months in order to recruit and retain senior individuals of the right calibre and to provide them with reasonable security.

Professor F R Hartley
Chairman, Remuneration Committee

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, the directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

Report of the Auditors to the members of T&N plc

We have audited the financial statements on pages 13 to 35. We have also examined the amounts disclosed relating to emoluments, pensions, share options and long-term incentive schemes of the directors which form part of the Remuneration Committee report on pages 7 to 11.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

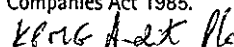
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

17 February 1998

Group profit and loss account Year ended 31 December

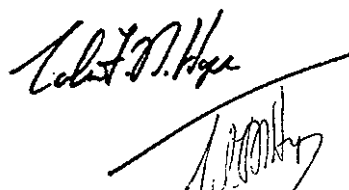
	Notes	1997 £m	1996 £m
Turnover			
Turnover including share of associated undertakings		1,883.3	2,037.9
Associated undertakings		(84.2)	(81.9)
Turnover excluding associated undertakings		1,799.1	1,956.0
Continuing operations		1,734.7	1,814.4
Acquisitions		29.6	-
Total continuing operations		1,764.3	1,814.4
Discontinued operations		34.8	141.6
Total turnover excluding associated undertakings	2(a)	1,799.1	1,956.0
Cost of sales	2(d)	(1,293.5)	(1,418.3)
Gross profit		505.6	537.7
Federal-Mogul bid related costs	2(d)	(10.0)	-
Other operating expenses	2(d)	(331.6)	(370.3)
Group operating profit before asbestos-related costs		164.0	167.4
Share of profits of associated undertakings	2(d)	13.2	11.8
Operating profit before asbestos-related costs	2(b), 2(e)	177.2	179.2
Asbestos-related costs	2(d)	-	(515.0)
Operating profit/(loss) on ordinary activities			
Continuing operations		171.4	(350.3)
Acquisitions		3.2	-
Total continuing operations		174.6	(350.3)
Discontinued operations		2.6	14.5
Total operating profit/(loss) on ordinary activities	2(d)	177.2	(335.8)
Profit/(loss) on disposal of discontinued operations	3	14.5	(1.0)
Release of provision against loss on disposals		-	1.4
Provision for loss/loss on disposal of properties (continuing operations)		(3.1)	(2.0)
Release of provision/(provision against) fixed asset investments: Kolbenschmidt costs	4	32.4	(23.4)
Profit/(loss) on ordinary activities before finance charges		221.0	(360.8)
Net interest payable and similar charges - Group	5	(28.4)	(26.8)
Net interest payable and similar charges - Associates		(2.5)	(0.7)
Profit/(loss) on ordinary activities before taxation		190.1	(388.3)
Tax on profit/(loss) on ordinary activities	6	(62.8)	(8.0)
Profit/(loss) on ordinary activities after taxation		127.3	(396.3)
Minority interests		(4.9)	(4.5)
Profit/(loss) attributable to shareholders		122.4	(400.8)
Dividends paid and proposed	7	(49.5)	(16.0)
Transfer to/(from) reserves	22	72.9	(416.8)
Earnings/(loss) per share	8	22.9p	(75.4)p
Earnings per share pre asbestos-related costs	8	20.4p	14.8p
Dividends per share	7	9.2p	3.0p

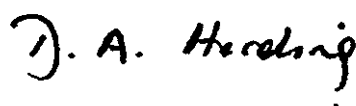
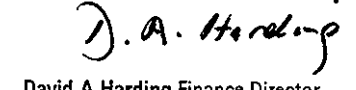
Where applicable, figures for the year ended 31 December 1996 have been restated to disclose separately the results of businesses discontinued during 1997. In addition, the 1996 figures have been restated to show the share of interest payable and similar charges of Associated companies below operating profit. No profit and loss account is presented for the Company, as permitted by section 230(3) of the Companies Act 1985.

Balance sheets As at 31 December

	Notes	Group 1997		Total £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
		Before asbestos related items £m	Asbestos related items £m				
Fixed assets							
Tangible assets	12	676.4	–	676.4	697.2	203.4	222.0
Investments	13	83.6	–	83.6	59.5	811.9	753.2
		760.0	–	760.0	756.7	1,015.3	975.2
Current assets							
Stocks	14	221.9	–	221.9	247.6	60.3	66.5
Debtors falling due within one year	15	318.8	–	318.8	350.8	83.8	134.5
Debtors falling due after more than one year	15	73.5	–	73.5	66.1	62.1	58.4
Investments	16	8.0	–	8.0	5.6	–	–
Cash at bank and in hand	19	115.8	78.2	194.0	131.5	109.4	38.8
		738.0	78.2	816.2	801.6	315.6	298.2
Creditors: due within one year							
Borrowings	19	103.7	–	103.7	77.2	31.8	3.1
Other creditors	17	403.4	19.6	423.0	472.5	148.9	220.0
		507.1	19.6	526.7	549.7	180.7	223.1
Net current assets		230.9	58.6	289.5	251.9	134.9	75.1
Total assets less current liabilities		990.9	58.6	1,049.5	1,008.6	1,150.2	1,050.3
Creditors: due after more than one year							
Borrowings	19	285.4	–	285.4	260.2	240.1	145.9
Other creditors	18	12.0	–	12.0	15.9	288.1	280.1
		297.4	–	297.4	276.1	528.2	426.0
Provisions for liabilities and charges	20	147.1	388.2	535.3	589.5	295.8	339.4
Net assets		546.4	(329.6)	216.8	143.0	326.2	284.9
Capital and reserves							
Called up share capital	21			219.5	532.2	219.5	532.2
Share premium account	22			2.7	0.2	2.7	0.2
Shares to be issued				0.7	–	0.7	–
Special reserve				63.2	–	63.2	
Revaluation reserves	22			14.2	21.6	8.1	15.0
Associated undertakings' reserves	22			(2.1)	5.0	–	–
Goodwill write off reserve	22			(182.9)	(181.1)	–	(5.3)
Profit and loss account	22			76.1	(259.6)	32.0	(257.2)
Equity shareholders' funds				191.4	118.3	326.2	284.9
Minority equity interests				25.4	24.7	–	–
				216.8	143.0	326.2	284.9

The financial statements on pages 13 to 36 were approved by the Board on 17 February 1998 and signed on its behalf by:


Sir Colin Hope Chairman


D. A. Harding

David A Harding Finance Director

Group cash flow statement Year ended 31 December

	Notes	Before asbestos related flows £m	Asbestos related flows £m	1997 Total £m	Before asbestos related flows £m	Asbestos related flows £m	1996 Total £m
Cash inflow from operating activities							
Before asbestos-related payments	23(a)	260.8	–	260.8	280.5		280.5
Asbestos-related payments							
– IBNR claims		–	(12.7)	(12.7)	–	(1.2)	(1.2)
– Other claims		–	(44.7)	(44.7)	–	(63.6)	(63.6)
– Insurance		–	(92.0)	(92.0)	–	–	–
Net cash inflow from operating activities	23(a)	260.8	(149.4)	111.4	280.5	(64.8)	215.7
Dividends from associates		6.5	–	6.5	6.8	–	6.8
Returns on investments and servicing of finance	23(b)	(27.6)	2.7	(24.9)	(31.4)	–	(31.4)
Taxation	23(c)	(20.1)	–	(20.1)	(28.9)	–	(28.9)
Capital expenditure and financial investment	23(d)	(101.9)	–	(101.9)	(125.5)	–	(125.5)
		117.7	(146.7)	(29.0)	101.5	(64.8)	36.7
Acquisitions and disposals	23(e)	43.1	–	43.1	59.3	–	59.3
Equity dividends paid		(17.6)	–	(17.6)	(31.9)	–	(31.9)
		143.2	(146.7)	(3.5)	128.9	(64.8)	64.1
Management of liquid resources	23(f)	(76.5)	–	(76.5)	(6.2)	–	(6.2)
Financing	23(g)	34.0	–	34.0	(27.1)	–	(27.1)
Increase/(decrease) in cash		100.7	(146.7)	(46.0)	95.6	(64.8)	30.8

Reconciliation of asbestos related flows to asbestos fund

Cash outflows (as above)	(146.7)	(64.8)
Cash transferred to asbestos fund	88.2	1.2
Non IBNR payments	136.7	63.6
Asbestos fund at year end	78.2	–

Reconciliation of net cash flow to movement in net debt

	1997 £m	1996 £m
(Decrease)/increase in cash in the year	(46.0)	30.8
Cash (inflow)/outflow from movement in debt and lease financing	23(g) (22.8)	30.1
Cash outflow from movement in liquid resources	76.5	6.2
Loans acquired with businesses	(4.8)	–
Change in net debt resulting from cash flows	2.9	67.1
Deduction of costs of raising finance paid from net debt	1.6	–
Amortisation of costs of raising finance	(0.2)	–
Exchange difference	8.9	42.6
Reduction in net debt	13.2	109.7
Net debt at start of year	(200.3)	(310.0)
Net debt at end of year	(187.1)	(200.3)

Statements of total recognised gains and losses Year ended 31 December

	Notes	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Profit/(loss) attributable to shareholders		122.4	(400.8)	66.1	(316.2)
Other recognised gains and losses:					
Unrealised loss on revaluation of fixed assets	22	(1.7)	-	(1.7)	-
Currency translation differences on foreign currency net investments	22	(17.4)	(23.1)	-	-
Other recognised losses		-	(0.6)	-	(0.3)
		(19.1)	(23.7)	(1.7)	(0.3)
Total recognised gains and losses relating to the year		103.3	(424.5)	64.4	(316.5)

		Group 1997 £m	Group 1996 £m
Historical cost profits/(losses)			
Reported profit/(loss) on ordinary activities before taxation		190.1	(388.3)
Realisation of revaluation surpluses	22	4.8	5.6
Difference between the historical depreciation charge and the actual depreciation charge	22	0.5	0.6
Historical cost profit/(loss) on ordinary activities before taxation		195.4	(382.1)
Historical cost profit/(loss) for the year after taxation, minority interests and dividends		78.2	(410.6)

		Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Reconciliations of movements in shareholders' funds					
Profit/(loss) attributable to shareholders		122.4	(400.8)	66.1	(316.2)
Dividends		(49.5)	(16.0)	(49.5)	(16.0)
Transfer to/(from) reserves		72.9	(416.8)	16.6	(332.2)
Other recognised gains and losses (as above)		(19.1)	(23.7)	(1.7)	(0.3)
New share capital subscribed		9.2	1.2	9.2	1.2
Scrip dividends		15.4	-	15.4	-
Shares to be issued under Executive Share Option Schemes		0.7	-	0.7	-
Goodwill	22	(6.0)	9.4	1.1	-
Net change		73.1	(429.9)	41.3	(331.3)
Shareholders' funds at start of year		118.3	548.2	284.9	616.2
Shareholders' funds at end of year		191.4	118.3	326.2	284.9

Notes to the accounts

1 Accounting policies

The Group follows applicable UK Accounting Standards and Practice. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

During the year the accounting policy for Executive share options has been amended as set out below, in accordance with UITF Abstract 17, Employee Share Schemes.

Basis of consolidation

The consolidated financial statements comprise the audited accounts of the Company and its subsidiary undertakings, together with the Group's share of the profits and losses and of the reserves of its associated undertakings. The accounts of subsidiaries are drawn up to the same date as those of the Company. Results of subsidiaries acquired or sold during the year are included from, or up to, their respective dates of acquisition or disposal.

Associated undertakings

Associated undertakings are companies, other than subsidiaries, in which the Group has a long-term and substantial investment and over which significant influence is exercised, normally through board representation. Associated undertakings are accounted for on the equity basis, that is, the Group's share of operating profit and items reported below operating profit are included in the profit and loss account. Its interest in their net assets, other than goodwill, is included in investments in the Group balance sheet.

Deferred tax

Deferred tax is attributable to timing differences between results as computed for tax purposes and as stated in the accounts. These differences arise from, for example, different rates at which allowances are granted for capital expenditure for tax purposes and at which depreciation is charged in the accounts. Provision for deferred tax, including that relating to post retirement benefits, is made only to the extent that it is probable that an actual liability or asset will crystallise.

Depreciation

Depreciation is provided on cost or the revalued amount, as applicable, to write fixed assets down to their estimated residual values on a straight line basis as follows:

- Freehold buildings, 2.5% per annum.
- Leasehold buildings are assumed to have a life equal to the period of the lease, but with a maximum of 40 years.
- Plant and machinery, at rates ranging from 7% to 33% per annum.

Foreign currencies

Overseas companies' results and cash flows are translated into sterling at average exchange rates and their balance sheets at year end exchange rates. An adjustment to local currency results is made to reflect current price levels, where appropriate, before translation into sterling. Exchange differences arising from the translation of the opening balance sheets and results of overseas companies are dealt with through reserves. Exchange differences on transactions in foreign currencies are included in the profit and loss account.

Grants

Grants related to expenditure on tangible fixed assets are credited to profit over a period approximating to the lives of qualifying assets. Grants receivable to date, less the amounts so far credited to profit, are included in creditors.

Intangibles

Goodwill, being the excess of the fair value of purchase consideration over the fair value attributed to the net assets acquired, is charged to reserves. On disposal of businesses, any goodwill previously eliminated on acquisition is included in determining the profit or loss on disposal. Other intangibles are written off when acquired.

Leasing

Finance leases of significant items of plant and machinery are capitalised and depreciated in accordance with the Group's depreciation policy. The capital element of future lease payments is included under borrowings. Interest, calculated on the reducing balance method, is included within net financing charges. Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions and other post-employment benefits

The cost of providing pensions and other post-employment benefits is charged against profits on a systematic basis, with pension surpluses and deficits being amortised over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to the plans are treated as assets or liabilities in the balance sheet. The unfunded post-employment medical benefit liability is included in provisions in the balance sheet.

Research and development

Research and development revenue expenditure, including all expenditure on patents and trademarks, is written off when incurred.

Share options

For options which are expected to be exercised under the Executive share option schemes the difference between the market value on the date of granting options and the option price is charged to the profit and loss account over the period to which the employees' performance relates. No charge is made in respect of the Save As You Earn option scheme which is open to all UK employees who satisfy the necessary length of service requirements.

Stocks

Stocks are stated at the lower of original cost and net realisable value on a first-in first-out basis. Cost comprises material, labour and an allocation of attributable overhead expenses. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

Turnover

Turnover is the value of sales to third parties at net invoice value excluding value added tax or equivalent overseas sales taxes.

2 Analysis of results

The Composites and Camshafts grouping comprises Camshafts, Powder Metal Products, Heat Transfer Products and Industrial Products and Materials. Figures for the Engine Parts Aftermarket Group are reflected in the product groupings to which they relate.

(a) Turnover

Market supplied	1997 £m	1996 £m
Light vehicle original equipment	731.2	772.9
Automotive aftermarket	497.1	529.4
Industrial and heavy duty original equipment	570.8	653.7
	1,799.1	1,956.0

Product groupings	1997 £m	1996 £m
Bearings	329.6	333.1
Sealing Products	195.1	216.0
Friction Products	293.9	309.5
Piston Products	572.8	574.7
Composites and Camshafts	372.9	381.1
Continuing operations	1,764.3	1,814.4
Discontinued operations	34.8	141.6
	1,799.1	1,956.0

Businesses acquired and discontinued	Acquisitions £m	1997 Discontinued £m	1996 Discontinued £m
Sealing Products	—	12.1	49.8
Friction Products	—	12.5	18.6
Piston Products	27.7	—	—
Composites and Camshafts	1.9	10.2	18.9
Construction Materials and Engineering	—	—	54.3
	29.6	34.8	141.6

Regional	1997 £m	By origin 1996 £m	By destination 1997 £m	1996 £m
UK	442.1	431.5	283.3	280.4
Mainland Europe	640.2	724.4	715.0	785.3
North America	563.1	527.7	568.1	540.2
South Africa	101.7	111.2	93.1	93.0
Other countries	17.2	19.6	104.8	115.5
Continuing operations	1,764.3	1,814.4	1,764.3	1,814.4
Discontinued operations	34.8	141.6	34.8	141.6
	1,799.1	1,956.0	1,799.1	1,956.0

Inter-group turnover between product groupings and regions is not material.

2 Analysis of results continued

(b) Operating profit before asbestos-related costs

Product groupings	1997 £m	1996 £m
Bearings	47.9	44.1
Sealing Products	18.8	16.1
Friction Products	20.4	16.0
Piston Products	50.9	43.9
Composites and Camshafts	46.6	44.6
	184.6	164.7
Bid costs	(10.0)	-
Continuing operations	174.6	164.7
Discontinued operations	2.6	14.5
	177.2	179.2

Businesses acquired and discontinued	Acquisitions £m	1997 Discontinued £m	1996 Discontinued £m
Sealing Products	-	1.1	5.2
Friction Products	-	(0.1)	0.4
Piston Products	3.4	-	-
Composites and Camshafts	(0.2)	1.6	3.5
Construction Materials and Engineering	-	-	5.4
	3.2	2.6	14.5

Regional	1997 £m	1996 £m
UK	53.6	58.5
Mainland Europe	62.7	46.4
North America	64.0	52.7
South Africa	7.0	7.6
Other countries	(2.7)	(0.5)
	184.6	164.7
Bid costs	(10.0)	-
Continuing operations	174.6	164.7
Discontinued operations	2.6	14.5
	177.2	179.2

Asbestos-related costs, financing charges, losses on disposal of discontinued operations and the movements in the provision against the Kolbenschmidt investment are not allocated by product groupings or region.

(c) Capital employed

Product groupings	1997 £m	1996 £m
Bearings	128.1	121.5
Sealing Products	67.1	65.6
Friction Products	117.3	124.6
Piston Products	294.0	272.9
Composites and Camshafts	148.5	137.0
Continuing operations	755.0	721.6
Discontinued operations	-	22.9
	755.0	744.5
Assets held for disposal and trade investments	37.0	14.6
Asbestos-related provisions	(388.2)	(440.6)
Net deferred consideration for acquisitions and disposals	0.1	24.8
Capital employed	403.9	343.3
Net borrowings	(187.1)	(200.3)
Net assets	216.8	143.0

2 Analysis of results continued**(c) Capital employed continued**

Regional	1997 £m	1996 £m
UK	251.2	230.6
Mainland Europe	181.2	240.4
North America	236.4	190.7
South Africa	43.0	40.4
Other countries	43.2	42.4
	755.0	744.5

(d) Continuing and discontinued activities	Continuing £m	Acquisitions £m	Discontinued £m	1997 Total £m	Continuing £m	Discontinued £m	1996 Total £m
Turnover	1,734.7	29.6	34.8	1,799.1	1,814.4	141.6	1,956.0
Cost of sales	(1,245.2)	(24.3)	(24.0)	(1,293.5)	(1,317.2)	(101.1)	(1,418.3)
Gross profit	489.5	5.3	10.8	505.6	497.2	40.5	537.7
Selling and distribution costs	(143.5)	(0.3)	(5.0)	(148.8)	(155.2)	(13.4)	(168.6)
Administrative expenses	(137.0)	(1.1)	(2.6)	(140.7)	(137.4)	(11.3)	(148.7)
Research and development	(50.7)	(0.7)	(0.7)	(52.1)	(51.5)	(1.5)	(53.0)
Share of profits of associated undertakings	13.1	–	0.1	13.2	11.6	0.2	11.8
Operating profit before asbestos-related costs	171.4	3.2	2.6	177.2	164.7	14.5	179.2
Asbestos-related costs	–	–	–	–	(515.0)	–	(515.0)
Operating profit	171.4	3.2	2.6	177.2	(350.3)	14.5	(335.8)

1996 amounts have been restated to reflect businesses disposed of in 1997.

(e) Costs of continuing operations charged in arriving at operating profit before asbestos-related costs include £17.5m (1996 £15.3m) in respect of redundancy and rationalisation. £4.5m of these costs (1996 £8.1m) have been charged as administrative costs and the majority of the remainder as costs of sales.

(f) Profit before finance charges is stated after charging	1997 £m	1996 £m
Auditor's and its associates' remuneration		
– as Group auditors (including T&N plc £0.4m (1996 £0.6m))	(1.3)	(1.8)
– fees for other services (including T&N plc £0.9m (1996 £0.9m))	(1.9)	(1.4)
Depreciation of tangible fixed assets		
– owned assets	(94.2)	(97.3)
– finance leased assets	(0.7)	(1.0)
Operating lease rentals		
– on plant and machinery	(9.1)	(8.7)
– on land and buildings	(6.3)	(7.4)

3 Sale of discontinued operations1997
£m

The profit for the year on disposal of discontinued operations comprises:

Provision against amount receivable on disposal of the Construction Materials business in Zimbabwe	(7.5)
Profits on disposals in the year	22.0
Net profit	14.5

Business disposed**Effective date**

Flexitallic	10 April 1997
Ferodo Caernarfon	3 May 1997
Kafue Fisheries	26 June 1997
Tenmat	4 August 1997
Ferodo US Heavy Parts	9 December 1997

Details of assets disposed are set out below.

	Flexitallic £m	Tenmat £m	Others £m	T&N S Africa £m	Total £m
Net assets at date of disposal					
Fixed assets	10.7	6.5	5.7	–	22.9
Investments	0.5	–	–	–	0.5
Stocks	4.7	1.8	2.9	–	9.4
Debtors	7.8	2.9	3.0	–	13.7
Creditors and provisions	(5.1)	(2.3)	(1.1)	–	(8.5)
Net cash	–	0.4	–	–	0.4
Goodwill on acquisition of businesses	1.6	2.4	–	–	4.0
Minority interest sold	–	–	–	0.4	0.4
Assets disposed	20.2	11.7	10.5	0.4	42.8
Profit/(loss)	20.8	5.0	(3.8)	–	22.0
Cash consideration realised	41.0	16.7	6.7	0.4	64.8
Cash arising during the year from the disposal of operations					
Net cash proceeds					64.8
Prior year disposals					9.6
Deferred payments					1.7
Net cash disposed					(0.4)
Cash flow					75.7
Operating profit in 1997 to date of disposal	1.1	1.6	(0.1)	–	2.6

During the year, the Group's shareholding in T&N Holdings Ltd in South Africa was reduced from 52.4% to 50.8% by selling shares which were taken up as scrip dividends.

4 Option over shares in Kolbenschmidt AG ('KS')

In December 1996 option arrangements with Commerzbank AG over 6,727,260 shares in KS expired. Commerzbank AG subsequently sold the shares subject to the arrangements and, under the terms of the agreement, the Company received part of the proceeds. The gain of £13.2m has been recognised as a profit.

At 31 December 1996 the Company held options to acquire a further 6,727,260 shares in KS, representing 24.99% of the issued share capital of KS. The option price was Dm17 per share and the consideration payable on exercise of the options would be Dm114.4m (£38.7m). On 28 May 1997 the Company announced that it had entered into option arrangements to sell 6,727,260 shares in KS at a price of Dm30 per share. The revenue receivable on exercise of these options would be Dm201.8m (£68.2m). The cost of these options, which are exercisable in December 1999, was £6.1m. An offer has been received to purchase both of the above rights for Dm10.7 per share resulting in a release of provisions totalling £19.2m.

4 Option over shares in Kolbenschmidt AG ('KS') continued

	1997 £m	1996 £m
Received from Commerzbank AG on sale of shares	13.2	
Release of provision made in prior years	19.2	-
Transfer of options to Metallbank GmbH	-	(8.5)
Payable on lapse of options with Commerzbank AG	-	(10.0)
Other holding costs	-	(4.9)
	32.4	(23.4)

5 Net interest payable and similar charges - Group

	1997 £m	1996 £m
Interest payable on bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	(28.4)	(26.2)
- repayable within five years, by instalments	(4.0)	(4.4)
- repayable wholly or partly in more than five years	(4.1)	(1.5)
Interest on finance leases repayable within five years	(0.3)	(0.4)
Amortisation of discounted asbestos provisions	(2.5)	-
	(39.3)	(32.5)

Interest receivable

On asbestos fund	2.7	-
Other interest receivable	8.2	5.7
	10.9	5.7
Net interest payable and similar charges - Group	(28.4)	(26.8)

6 Taxation

	1997 £m	1996 £m
UK corporation tax at 31.5% (1996 33%)	(13.1)	(15.2)
Relief for overseas taxation	7.8	8.6
Advance corporation tax written (off)/back	(3.2)	0.7
Deferred tax	(0.5)	9.0
Adjustments in respect of prior years	(2.7)	-
Total UK	(11.7)	3.1
Overseas	(30.6)	(21.5)
Overseas deferred tax	(15.3)	16.2
Associated undertakings	(5.0)	(7.0)
Adjustments in respect of prior years	(0.2)	1.2
	(62.8)	(8.0)

The overseas tax charge has been reduced by £10.9m (1996 £5.0m) by utilising losses brought forward.

The tax (charge)/credit arises as follows:

On the disposal of operations	(5.1)	(1.8)
On provision for loss/loss on disposal of properties	-	(0.1)
On (release of provision)/provision against fixed asset investments	(11.9)	0.6
On asbestos-related costs	13.1	35.5
On other profits	(58.9)	(42.2)
	(62.8)	(8.0)

6 Taxation continued

The tax credit taken in these accounts in respect of asbestos is calculated by reference to the payments made rather than the charge in the accounts and has been reduced by the related movement in the deferred tax debtor. No tax relief is available on the goodwill of £4.0m (1996 £9.7m) charged in arriving at the profit on disposal of operations of £14.5m (1996 £0.4m).

7 Dividends

	1997 p per share	1997 £m	1996 p per share	1996 £m
First interim, paid on 11 July 1997	3.0	(16.0)	-	-
Second interim, paid on 14 November 1997	3.2	(17.0)	3.0	(16.0)
Third interim, paid on 30 January 1998	3.0	(16.5)	-	-
	9.2	(49.5)	3.0	(16.0)

Because of the exceptional asbestos-related charge during 1996, the Company did not have sufficient distributable reserves to declare a final dividend for 1996. A first interim dividend of 3.0p per share was paid to shareholders on the register on 2 May 1997 in lieu of the final 1996 dividend, with the result that shareholders received dividends totalling 6p per share in respect of 1996. A third interim dividend of 3.0p per share was declared on 16 October 1997 and paid on 30 January 1998. No final dividend for 1997 is proposed. Together with the second interim dividend of 3.2p per share, shareholders have received dividends totalling 6.2p per share in respect of 1997.

Dividends with a value of £15.4m were taken up as scrip dividends. This comprised £0.6m in respect of the first interim dividend and £14.8m in respect of the second interim dividend.

8 Earnings/(loss) per share

	1997 p per share	1997 £m	1996 p per share	1996 £m
Earnings/(loss):				
Net basis	22.9	122.4	(75.4)	(400.8)
Nil basis	24.4	130.9	(75.6)	(401.5)
Pre asbestos-related costs basis	20.4	109.3	14.8	78.7
Average number of shares in issue weighted on a time basis		534.5		531.6

In addition to earnings per share on the net basis, as required by SSAP 3, the earnings per share are also shown after adjustment for asbestos-related costs. The adjustment made is to add back asbestos-related costs of nil (1996 £515.0m) and associated tax credits of £13.1m (1996 £35.5m). In the opinion of the directors, this allows shareholders to gain a clearer understanding of the performance of the Group. There is no material difference between the earnings per share figures noted above and those calculated on a fully diluted basis.

Earnings per share calculated on a nil basis has been adjusted for Advance Corporation Tax payable for the year of £8.5m (1996 write back of £0.7m).

9 Employees

	1997 Average numbers	1996 Average numbers
UK	8,637	10,036
Mainland Europe	9,388	9,765
North America	7,398	7,172
South Africa	3,767	4,379
Zimbabwe	-	2,069
Other countries	444	472
	29,634	33,893

At the year end the total number of employees was 28,904 (1996 30,473).

Employment costs

	1997 £m	1996 £m
Wages and salaries	543.0	601.1
Social security costs	81.4	96.0
Other pension costs (Note 10)	11.3	12.9
Other post-employment benefits (Note 10)	3.0	3.0
Redundancy payments	14.6	13.9
	653.3	726.9

10 Post-employment benefits

The Company and most of its subsidiaries operate both defined benefit and defined contribution pension schemes. With the exception of the schemes in Germany, the assets of the principal schemes are held in separate trustee-administered funds. The most significant schemes are in the UK, Germany and the US. The element of the total pension cost relating to overseas schemes has been determined in accordance with local best practice and regulations and, where applicable, on the advice of consultant actuaries.

The major pension costs are:	1997 £m	1996 £m
UK (credit)	(6.4)	(5.7)
United States	5.9	5.9
Germany	5.7	6.0
France	2.3	3.3
Others	3.8	3.4
Total	11.3	12.9

The UK scheme is the largest, covering the majority of UK employees. The pension cost is assessed in accordance with the advice of independent qualified actuaries in order to secure final salary-related benefits. The most recent actuarial review, using the projected unit method, was carried out on 31 March 1996 and, as a result of this review, a number of scheme improvements were made. At 31 March 1996 the market value of the assets of the UK scheme was £963m (1993 £747m) and the actuarial value of these assets represented 121% (1993 129%) of the benefits that had accrued to members, after allowing for increases in earnings and scheme improvements.

The assumptions made which have the most significant effect on the results of this valuation are those relating to the differentials between the rates of return on investments and the rates of

increase in salaries and pensions. It was assumed that the investment return would be 2% (1993 2%) per annum higher than the rate of annual salary increases, and 5% (1993 5%) per annum higher than the rate at which present and future pensions would increase.

The surplus in the UK scheme is being amortised over 13 years, the average remaining service lives of employees. The credit arising from the amortisation of this surplus more than offsets ongoing pension costs. The resultant SSAP 24 credit, including interest, was £6.6m (1996 £5.7m).

From January 1995 until 31 March 1996 the Group made payments to the UK scheme at a rate of 4% of pensionable earnings. Since 1 April 1996 no payments have been necessary because of the surplus in the scheme.

During the year the prepayment in respect of pensions for the UK scheme increased by £6.6m to £51.6m at the end of 1997. This amount is included in debtors (Note 15).

In the US, the Group operates a number of defined benefit schemes and defined contribution schemes. These schemes undergo an actuarial analysis annually.

In Germany, the Group operates a number of defined benefit pension schemes. These undergo an actuarial valuation annually. Provisions for the liabilities amounted to £70.0m at the end of 1997 (1996 £76.9m).

In addition, other post-employment benefits in the US are fully provided for in accordance with UK accounting standards. Provisions amounted to £32.3m at the end of 1997 (1996 £31.1m) in respect of these benefits. The cost of post-employment medical benefits in the US was £2.8m (1996 £2.8m).

There are no other significant post-employment benefits.

11 Directors' emoluments

Details of directors' emoluments and of directors' share options and the remuneration of the Chairman and highest paid director are set out in the Report of the Remuneration Committee on pages 7 to 11.

12 Tangible fixed assets

Cost or valuation	Land and buildings		Plant and machinery		Total	
	Group £m	Company £m	Group £m	Company £m	Group £m	Company £m
At 1 January 1997	230.8	74.0	1,017.8	353.9	1,248.6	427.9
Currency translation	(8.6)	-	(32.3)	-	(40.9)	-
Acquisition of businesses	3.5	-	14.4	-	17.9	-
Capital expenditure	10.8	1.4	94.7	23.3	105.5	24.7
Transfers between Group companies and reclassifications	2.2	2.2	(2.2)	(2.2)	-	-
Disposal of operations	(9.8)	(8.2)	(36.9)	(26.8)	(46.7)	(35.0)
Other disposals	(4.4)	-	(22.9)	(8.3)	(27.3)	(8.3)
Valuation adjustment	(1.7)	(1.7)	-	-	(1.7)	(1.7)
At 31 December 1997	222.8	67.7	1,032.6	339.9	1,255.4	407.6
Comprising:						
Cost	145.2	28.1	937.5	338.0	1082.7	366.1
Valuation in						
1989	48.0	29.1	11.0	-	59.0	29.1
Other years	29.6	10.5	84.1	1.9	113.7	12.4
	222.8	67.7	1,032.6	339.9	1,255.4	407.6

Revaluations are carried out on an existing use basis. The valuation adjustment of £1.7m relates to one property. The value of this property has been estimated by the directors.

12 Tangible fixed assets continued	Land and buildings		Plant and machinery		Group £m	Total Company £m
Depreciation	Group £m	Company £m	Group £m	Company £m		
At 1 January 1997	30.9	9.2	520.5	196.7	551.4	205.9
Currency translation	(1.2)	–	(19.0)	–	(20.2)	–
Transfers between Group companies and reclassifications	0.5	0.4	(0.5)	(0.4)	–	–
Disposal of operations	(1.8)	(1.5)	(22.0)	(15.6)	(23.8)	(17.1)
Other disposals	(2.4)	(0.1)	(20.9)	(8.2)	(23.3)	(8.3)
Charge for the year	7.4	1.7	87.5	22.0	94.9	23.7
At 31 December 1997	33.4	9.7	545.6	194.5	579.0	204.2
Net book value						
At 31 December 1997	189.4	58.0	487.0	145.4	676.4	203.4
At 31 December 1996	199.9	64.8	497.3	157.2	697.2	222.0

Included in the cost of fixed assets of the Group at 31 December 1997 are buildings in the course of construction of £0.5m (Company £0.3m) (1996 Group £2.8m, Company £0.5m) and plant and machinery in the course of construction of £29.0m (Company £11.6m) (1996 Group £25.9m, Company £11.5m).

Net book value of land and buildings	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Freehold land – not depreciated	44.9	49.5	18.8	20.7
Freehold buildings	142.4	148.3	38.1	43.4
Long leasehold (over 50 years unexpired)	0.2	0.2	–	0.1
Short leasehold	1.9	1.9	1.1	0.6
	189.4	199.9	58.0	64.8

Capitalised leases included in plant and machinery	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Cost	24.1	28.4	20.1	23.6
Depreciation	(20.9)	(23.8)	(19.6)	(22.8)
Net book value	3.2	4.6	0.5	0.8

Historical cost of tangible fixed assets	Land and buildings		Plant and machinery		Group £m	Total Company £m
	Group £m	Company £m	Group £m	Company £m		
Cost (or ascribed value)	196.7	45.0	1,031.7	339.9	1,228.4	384.9
Depreciation	(32.1)	(7.5)	(544.9)	(194.5)	(577.0)	(202.0)
Net historical cost value						
At 31 December 1997	164.6	37.5	486.8	145.4	651.4	182.9
At 31 December 1996	161.6	34.1	497.1	157.2	658.7	191.3

13 Fixed asset investments Group	Associated undertakings £m	Other shares £m	Other investments £m	Total £m
Cost or valuation				
At 1 January 1997	51.7	7.9	37.6	97.2
Currency translation	(4.7)	(0.2)	(3.8)	(8.7)
Additions	5.3	0.2	6.1	11.6
Acquisitions of operations	–	0.6	–	0.6
Disposals and repayments	(0.7)	–	(12.8)	(13.5)
Share of retained losses	(0.8)	–	–	(0.8)
At 31 December 1997	50.8	8.5	27.1	86.4
Provisions				
At 1 January 1997	–	(0.1)	(37.6)	(37.7)
Currency translation	–	–	2.8	2.8
Disposals	–	–	12.8	12.8
Release of provision	–	0.1	19.2	19.3
At 31 December 1997	–	–	(2.8)	(2.8)
Net book value				
At 31 December 1997	50.8	8.5	24.3	83.6
At 31 December 1996	51.7	7.8	–	59.5

Listed investments included above in associated undertakings at net book value are £7.7m (1996 £7.5m) – market value £4.7m (1996 £5.7m). The principal subsidiary and associated undertakings are set out on page 36. At 31 December 1997, Group associated undertakings investments included loans receivable of £5.1m (1996 £1.8m).

Company	Subsidiary undertakings Shares £m	Subsidiary undertakings Loans £m	Associated undertakings Shares £m	Associated undertakings Loans £m	Other shares £m	Other investments £m	Total £m
Cost or valuation							
At 1 January 1997	607.2	221.8	0.5	0.8	3.0	0.1	833.4
Currency translation	–	(7.2)	–	(0.1)	–	–	(7.3)
Acquisitions and additions	11.8	78.7	–	0.5	–	–	91.0
Disposals and repayments	–	(24.8)	–	(0.2)	–	–	(25.0)
At 31 December 1997	619.0	268.5	0.5	1.0	3.0	0.1	892.1
Provisions							
At 1 January 1997 and 31 December 1997	(77.2)	(3.0)	–	–	–	–	(80.2)
Net book value							
At 31 December 1997	541.8	265.5	0.5	1.0	3.0	0.1	811.9
At 31 December 1996	530.0	218.8	0.5	0.8	3.0	0.1	753.2

Listed investments included above in associated undertakings at net book value are £0.5m (1996 £0.5m) – market value £0.2m (1995 £0.3m).

14 Stocks	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Raw materials and consumables	45.5	41.9	16.1	13.4
Work in progress	39.3	45.7	11.6	15.7
Finished goods	137.1	160.0	32.6	37.4
	221.9	247.6	60.3	66.5

15 Debtors	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Debtors falling due within one year				
Trade	264.4	260.2	33.7	37.4
Amounts owed by subsidiaries	—	—	27.0	55.8
Amounts owed by associated undertakings	3.9	1.4	1.9	0.8
Amounts owed in respect of disposals of operations	7.8	24.8	6.4	22.7
Assets held for disposal	4.2	6.8	2.2	2.5
Overseas taxation recoverable	2.8	6.1	—	—
Deferred tax recoverable (Note 26)	1.8	13.9	—	—
Prepayments and accrued income	9.8	13.9	4.3	6.3
Other	24.1	23.7	8.3	9.0
	318.8	350.8	83.8	134.5
Debtors falling due after more than one year				
Amounts owed in respect of disposal of operations	0.6	3.4	0.6	3.1
Prepaid pension costs (Note 10)	51.6	45.0	51.6	45.0
Deferred tax recoverable (Note 26)	19.3	16.5	9.8	10.3
Overseas taxation recoverable	0.4	0.2	—	—
Other debtors	1.6	1.0	0.1	—
	73.5	66.1	62.1	58.4
Total debtors	392.3	416.9	145.9	192.9
16 Current asset investments	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Listed investments – market value £8.1m (1996 £5.1m)	7.7	5.1	—	—
Other investments – market value £0.4m (1996 £0.6m)	0.3	0.5	—	—
	8.0	5.6	—	—
17 Creditors – due within one year	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Trade	165.3	168.9	57.1	61.6
Amounts owed to subsidiaries	—	—	3.1	25.8
Amounts owed to associated undertakings	2.7	2.1	—	—
Amounts owed in respect of acquisitions	2.8	—	1.1	—
Payroll and other taxes, including social security	48.4	54.1	7.9	8.5
Taxation – United Kingdom corporation tax	8.7	5.9	7.1	5.3
– Overseas taxation	30.1	13.6	—	—
Accruals and deferred income	88.4	69.4	46.5	35.1
Grants not yet credited to profit	1.3	1.7	1.1	1.6
Proposed dividend (Note 7)	16.5	—	16.5	—
Asbestos-related insurance premium	—	92.0	—	69.0
Other	58.8	64.8	8.5	13.1
	423.0	472.5	148.9	220.0
18 Creditors – due after more than one year	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts owed to subsidiaries	—	—	283.2	277.2
Amounts owed in respect of acquisitions	5.5	3.4	2.2	—
Accruals and deferred income	—	1.3	—	—
Grants not yet credited to profit	3.8	4.4	2.7	2.9
Other	2.7	6.8	—	—
	12.0	15.9	288.1	280.1

19 Net borrowings	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Borrowings				
Repayable after more than five years				
– Instalments	7.3	7.7	–	–
– Otherwise	153.7	0.7	152.6	–
Two to five years				
– Instalments	16.9	23.0	–	–
– Otherwise	100.3	186.0	87.5	145.7
One to two years				
– Instalments	5.8	8.7	–	0.2
– Otherwise	1.4	34.1	–	–
Total due after more than one year	285.4	260.2	240.1	145.9
Total due within one year	103.7	77.2	31.8	3.1
Total borrowings	389.1	337.4	271.9	149.0
Cash at bank and in hand and current asset investments	(202.0)	(137.1)	(109.4)	(38.8)
Net borrowings	187.1	200.3	162.5	110.2

Analysis of total borrowings

Finance leases	3.9	5.3	–	–
Bank overdrafts and loans secured on assets of the Group	27.5	37.4	–	–
Unsecured bank overdrafts and loans	357.7	294.7	271.9	149.0
	389.1	337.4	271.9	149.0

Analysis of borrowings by currency

Sterling	(28.6)	(33.9)	(17.4)	(35.8)
Other European currencies	78.0	130.3	61.2	72.7
United States Dollar	119.0	80.4	118.7	73.0
South African Rand	8.1	9.3	–	–
Other currencies	10.6	14.2	–	0.3
	187.1	200.3	162.5	110.2

The majority of the Group's borrowings are at variable rates between 35 and 50 basis points above the applicable base rate for the currency. Interest rate swaps have been entered into in a mix of currencies whereby the interest charge on total debt of £154.2m has been swapped from variable to fixed rates for periods of between two and five years. Included in cash and current asset investments, at 31 December 1997, amounts totalling £23.7m (1996 £22.8m) are held by the Group's insurance company of which £18.0m (1996 £17.6m) is required to meet insurance regulatory requirements and which, as a result, is not readily available for the general purposes of the Group.

20 Provisions for liabilities and charges	Deferred taxation £m	Post- employment benefits £m	Asbestos- related £m	Other provisions £m	Total £m
Group					
At 1 January 1997	–	142.1	440.6	6.8	589.5
Reclassified from creditors	–	–	90.7	–	90.7
Reclassified from debtors	–	–	(0.3)	–	(0.3)
Acquisition of operations	–	0.6	–	0.4	1.0
Currency translation	(0.2)	(9.1)	4.1	(0.2)	(5.4)
Charge for the year	5.9	13.9	–	0.6	20.4
Amortisation of discount	–	–	2.5	–	2.5
Payments	–	(11.5)	(149.4)	(2.2)	(163.1)
At 31 December 1997	5.7	136.0	388.2	5.4	535.3
Company					
At 1 January 1997	–	–	338.7	0.7	339.4
Reclassified from creditors	–	–	68.2	–	68.2
Reclassified to debtors	–	–	(0.3)	–	(0.3)
(Credit) for the year	–	–	(0.2)	–	(0.2)
Amortisation of discount	–	–	2.2	–	2.2
Payments	–	–	(113.5)	–	(113.5)
At 31 December 1997	–	–	295.1	0.7	295.8

Other provisions include leaving benefits payable to employees in certain acquired companies and costs of environmental cleaning.

21 Called up share capital

Ordinary shares	Authorised No. of shares	Authorised £m	Issued and fully paid No. of shares	Issued and fully paid £m
At 1 January 1997	725,000,000	725.0	532,203,165	532.2
Options exercised to 30 January 1997	-	-	113,269	0.1
At 30 January 1997	725,000,000	725.0	532,316,434	532.3
Capital reduction	-	(435.0)	-	(319.4)
After capital reduction	725,000,000	290.0	532,316,434	212.9
Options exercised to 31 December 1997	-	-	6,275,782	2.6
Issued as scrip dividends	-	-	10,111,955	4.0
At 31 December 1997	725,000,000	290.0	548,704,171	219.5

A capital reduction was approved by the Court on 29 January 1997 and took effect on 30 January 1997. In accordance with the terms of the capital reduction, the nominal value of authorised and issued shares was reduced from £1.00 to 40p.

Share option schemes	Executive No. of shares	Savings-related No. of shares	Total No. of shares
At 1 January 1997	12,332,229	12,537,575	24,869,804
Granted	2,965,000	4,100,923	7,065,923
Exercised	(4,001,750)	(2,387,301)	(6,389,051)
Lapsed	(628,255)	(2,234,510)	(2,862,765)
At 31 December 1997	10,667,224	12,016,687	22,683,911

Share option schemes	Executive	Savings-related	Total
Number of holders	236	3,976	4,212
Latest dates exercisable range between	1998/2007	1998/2003	
Exercisable at the following price per share			
101.7p	-	599,843	599,843
111.4p	873,136	-	873,136
119.7p – 147.8p	812,777	6,459,850	7,272,627
151.6p – 172.1p	6,294,224	4,420,819	10,715,043
182.8p – 199.8p	271,162	536,175	807,337
201.6p – 226.2p	2,415,925	-	2,415,925
	10,667,224	12,016,687	22,683,911

The interests in the Company, of those who were directors at 31 December 1997, were as follows:	Ordinary shares	
	31.12.97	31.12.96
Sir Colin Hope	107,774	105,562
R G Beeston	10,000	-
R H Boissier	2,595	2,488
D A Harding	5,104	5,000
Sir Terence Harrison	10,000	5,000
Professor F R Hartley	3,131	3,001
P S Lewis	1,000	1,000
A C McWilliam	2,375	2,326
I F R Much	34,952	34,168
T A Welsh	19,445	5,914
Sir Geoffrey Whalen	4,856	4,654
	201,232	169,113

There have been no changes in the interests of directors between 31 December 1997 and 17 February 1998. No director has any beneficial interest in shares of any subsidiary.

22 Reserves Group	Share premium account £m	Shares to be issued £m	Special reserve £m	Revaluation reserves £m	Associated undertakings' reserves £m	Goodwill write off reserve £m	Profit and loss account £m
At 1 January 1997	0.2	—	—	21.6	5.0	(181.1)	(259.6)
Transfer to special reserve	—	—	(262.5)	—	—	5.3	257.2
Transfer capital reduction to special reserve	—	—	319.4	—	—	—	—
Currency translation on overseas assets	—	—	—	(0.4)	(4.9)	—	(21.0)
Currency translation on net debt	—	—	—	—	—	—	8.9
Transfer to profit and loss	—	—	—	—	(0.8)	—	73.7
Realisation of revaluation surpluses	—	—	5.2	(5.3)	—	—	0.1
Revaluations	—	—	—	(1.7)	—	—	—
Premium on share issues	6.5	—	—	—	—	—	—
Scrip dividend (Note 7)	(4.0)	—	—	—	—	—	15.4
Goodwill arising on acquisitions	—	—	—	—	—	(10.0)	—
Goodwill on disposals	—	—	1.1	—	—	2.9	—
Realisation of reserves on disposal	—	—	—	—	(0.3)	—	0.3
Executive share options	—	0.7	—	—	—	—	—
Other movements	—	—	—	—	(1.1)	—	1.1
At 31 December 1997	2.7	0.7	63.2	14.2	(2.1)	(182.9)	76.1

Company

At 1 January 1997	0.2	—	—	15.0	—	(5.3)	(257.2)
Transfer to special reserve	—	—	(262.5)	—	—	5.3	257.2
Transfer capital reduction to special reserve	—	—	319.4	—	—	—	—
Profit attributable	—	—	—	—	—	—	66.1
Dividends	—	—	—	—	—	—	(49.5)
Realisation of revaluation surpluses	—	—	5.2	(5.2)	—	—	—
Revaluations	—	—	—	(1.7)	—	—	—
Premium on share issues	6.5	—	—	—	—	—	—
Scrip dividend (Note 7)	(4.0)	—	—	—	—	—	15.4
Goodwill on disposals	—	—	1.1	—	—	—	—
Executive share options	—	0.7	—	—	—	—	—
At 31 December 1997	2.7	0.7	63.2	8.1	—	—	32.0

A capital reduction was approved by the Court on 29 January 1997 and took effect on 30 January 1997. The accounting entries recorded in the accounting records of the Company in accordance with the terms approved by the Court were as follows:

- The nominal value of each share in issue at 30 January 1997 was reduced from £1.00 to 40p. As a consequence, the nominal value of shares in issue at 30 January 1997 (£532.2m) was reduced by £319.4m to £212.9m. The reduction of £319.4m was credited to the special reserve.
 - The balance of £5.3m on the goodwill reserve of the Company at 31 December 1996 was transferred to the special reserve.
 - The balance of £257.2m on the profit and loss account reserve of the Company at 31 December 1996 was transferred to the special reserve.
- The special reserve is not distributable except in certain limited circumstances. Any goodwill or revaluation reserves in existence at 1 January 1997 must be credited to the special reserve when they are realised.

Cumulative goodwill written off to Group reserves at 31 December 1997 totals £254.3m (1996 £248.3m), comprising £182.9m (1996 £181.1m) shown above, £67.2m (1996 £67.2m) written off to a merger reserve in earlier years, and £4.2m transferred to the special reserve in 1997.

Retained earnings of overseas subsidiaries and associated undertakings would be liable to tax if remitted as dividends to the United Kingdom. No provision has been made for this liability as there are no plans to remit such earnings.

23 Notes to the cash flow statement			
(a) Reconciliation of operating profit to net cash inflow from operating activities			
	1997	1996	£m
		£m	
Operating profit/(loss)		177.2	(335.8)
Share of profits of associated undertakings		(13.2)	(11.8)
Depreciation		93.5	98.3
Loss on sale of tangible fixed assets		0.8	2.5
Decrease in stocks		12.8	22.2
(Increase)/decrease in debtors		(25.4)	1.0
Increase/(decrease) in creditors		13.7	(2.0)
Increase/(decrease) in provisions		1.6	(7.9)
Other non cash movements		(0.2)	(1.0)
Charge for asbestos-related costs		-	515.0
Cash inflow from operating activities before asbestos-related payments		260.8	280.5
Asbestos-related payments		(149.4)	(64.8)
Cash inflow from operating activities after asbestos-related payments		111.4	215.7
(b) Returns on investment and servicing of finance			
		1997	1996
		£m	£m
Interest received		11.0	5.2
Interest paid		(35.1)	(35.4)
Dividends paid to minorities		(0.8)	(1.2)
		(24.9)	(31.4)
(c) Taxation			
		1997	1996
		£m	£m
UK tax paid		(8.5)	(9.3)
Overseas tax paid		(11.6)	(19.6)
		(20.1)	(28.9)
(d) Capital expenditure and financial investment			
		1997	1996
		£m	£m
Purchase of tangible fixed assets		(103.9)	(114.3)
Grants received		0.2	-
Disposal of tangible fixed assets		3.3	2.3
Additions to trade and other investments (primarily Kolbenschmidt)		(14.7)	(13.6)
Disposal of trade investments (Kolbenschmidt)		13.2	0.1
		(101.9)	(125.5)
(e) Acquisitions and disposals			
	Notes	1997	1996
		£m	£m
Acquisitions	24	(27.3)	(8.5)
Sale of discontinued operations	3	75.7	74.8
Additions to associated undertakings		(5.3)	(7.0)
		43.1	59.3
(f) Management of liquid resources			
		1997	1996
		£m	£m
Additions to current asset investments		(2.4)	(4.4)
Increase in short term investments		(74.1)	(1.8)
		(76.5)	(6.2)
(g) Financing			
		1997	1996
		£m	£m
New loans		139.4	176.7
Repayment of loans		(116.6)	(206.8)
Cash inflow/(outflow) from movement in debt and lease financing		22.8	(30.1)
Issue of ordinary share capital		9.1	1.2
Capital input by minorities		2.1	1.8
		34.0	(27.1)

23 Notes to the cash flow statement continued**(h) Acquired and discontinued operations**

In 1997, acquired and discontinued operations had no significant impact on any of the cash flow categories, other than as disclosed in acquisitions and disposals (Note 23(e)) above.

24 Acquisitions

On 27 February 1997 the Group acquired Michigan Stamping Corporation, which manufactures heat shields and is based in Michigan, USA. On 16 June 1997 the Group acquired Metal Leve Inc, a manufacturer of articulated pistons also based in Michigan, USA. This Company was subsequently renamed AE Goetze Carolina Inc.

In addition, on various dates during the year, the Group acquired the following minority interests:

Company	% ownership at start of year	% ownership at end of year
Ferodo a.s.	55%	100%
Ferodo India Pvt Ltd	76%	100%
AE Goetze Argentina SA	94%	100%
Nanchang Payen Company Limited	70%	80%

Details of the acquisitions, including the fair value adjustments made to the assets and liabilities acquired, are set out below. Substantially all the assets and goodwill acquired relate to Metal Leve Inc. Substantially all the minority interests acquired relate to Ferodo a.s.

	Book value at acquisition £m	Accounting policy alignment £m	Other adjustments £m	Fair value £m	Minority interests £m	Total £m
Tangible fixed assets	15.6	–	2.3	17.9	–	17.9
Investments	0.6	–	–	0.6	–	0.6
Stocks	3.4	0.3	–	3.7	–	3.7
Debtors	8.6	–	(0.5)	8.1	–	8.1
Creditors	(8.9)	–	–	(8.9)	–	(8.9)
Provisions	(1.5)	(0.4)	1.0	(0.9)	–	(0.9)
Cash	4.2	–	–	4.2	–	4.2
Loans	(4.8)	–	–	(4.8)	–	(4.8)
Minority interests	–	–	–	–	5.1	5.1
Assets acquired	17.2	(0.1)	2.8	19.9	5.1	25.0
Goodwill				10.3	(0.3)	10.0
Cash consideration				30.2	4.8	35.0

All accounting policy alignments and other adjustments relate to Metal Leve Inc. The accounting policy alignments comprise the recording as stocks of £0.3m of consumable stores previously written off and a provision of £0.4m in respect of environmental work required at the date of acquisition. Other adjustments comprise the revaluation of fixed assets (£2.3m) and the elimination of deferred tax debtors (£0.5m) and creditors (£1.0m).

In its last statutory year, ended 31 December 1996, Metal Leve Inc earned profits after taxation of £1.4m; in the period from 1 January 1997 to 15 June 1997 it earned profits after taxation of £1.6m.

Cash paid for acquisitions	£m
Cash consideration	35.0
Consideration deferred	(4.0)
Prior year deferred consideration paid	0.5
Less cash acquired	(4.2)
Cash outflow on acquisitions	27.3

25 Analysis of movement in net debt	At 1 January 1997 £m	Cash flow £m	Other non cash movements £m	Debt acquired £m	Exchange movement on opening balances £m	movement on in year £m	At 31 December 1997 £m
Cash at bank and in hand	110.4	(3.2)	–	–	(5.0)	(2.3)	99.9
Overdrafts	(24.0)	(42.8)	–	–	1.4	0.3	(65.1)
	86.4	(46.0)	–	–	(3.6)	(2.0)	34.8
Debt due within one year	(51.7)	12.4	–	(1.5)	3.9	(0.6)	(37.5)
Debt due after one year	(256.4)	(36.4)	1.4	(3.2)	10.5	1.5	(282.6)
Finance leases	(5.3)	1.2	–	(0.1)	0.3	–	(3.9)
	(313.4)	(22.8)	1.4	(4.8)	14.7	0.9	(324.0)
Short term deposits	21.1	74.1	–	–	(0.2)	(0.9)	94.1
Current asset investments	5.6	2.4	–	–	–	–	8.0
	26.7	76.5	–	–	(0.2)	(0.9)	102.1
Net borrowings	(200.3)	7.7	1.4	(4.8)	10.9	(2.0)	(187.1)

Included within the closing balance of short term deposits is £78.2m in the asbestos fund.

26 Deferred taxation

Asset/(liability) recognised	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Asbestos-related costs	21.1	27.4	9.8	10.3
Losses and other timing differences	(5.7)	3.0	–	–
	15.4	30.4	9.8	10.3

No provision has been made for tax which would become payable on the amount by which assets have been revalued because there is no current intention to dispose of these assets.

Unprovided assets/(liabilities)	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Excess of book value over tax value of fixed assets	(63.0)	(63.4)	(32.3)	(36.1)
Asbestos-related costs	54.4	52.0	45.7	46.6
Losses and other timing differences	(20.3)	(17.7)	(13.4)	(10.5)
	(28.9)	(29.1)	–	–

Provision for deferred taxation is only made to the extent that it is probable that an actual liability or asset will crystallise.
Advance corporation tax of £61.9m (1996 £56.5m) is available for carry forward against future UK tax liabilities.

27 Related party transactions

The T&N Group is related to all its associated undertakings listed on page 36 because it exerts significant influence over them. During the year various transactions have occurred between the T&N Group and its associates including:

- sales of goods and equipment to associated undertakings of £12.1m (1996 £12.8m);
- purchases of goods from associated undertakings of £15.9m (1996 £15.5m);
- royalties received from associated undertakings of £1.9m (1996 £1.4m);
- dividends received from associated undertakings of £6.5m (1996 £6.8m);
- investments in associated undertakings as set out in Note 13.

Sales between associated undertakings totalled £26.1m (1996 £16.0m).

Trading balances with associated undertakings at 31 December 1996 and 1997 are set out in Notes 15 and 17.

Entities which the T&N Group sold and acquired during the year, details of which are set out in Notes 3 and 24, are deemed to be related parties because the T&N Group exercised control over these whilst they were part of the T&N Group. Transactions during the year which are not eliminated on consolidation totalled £0.3m (1996 £1.0m) comprising mainly the provision of utilities to disposed businesses.

All these transactions were entered into on arms length terms.

28 Commitments and contingent liabilities

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Future capital expenditure – contracts placed	20.0	12.6	5.7	2.4
Operating leases – payment commitments for 1998				
On leases of land and buildings expiring:				
- within one year	1.0	1.0	-	-
- between two and five years	3.3	2.1	0.5	0.1
- in more than five years	2.5	2.1	1.2	1.1
	6.8	5.2	1.7	1.2
On leases of plant and machinery expiring:				
- within one year	1.2	1.4	0.3	0.4
- between two and five years	5.7	7.0	3.5	4.2
- in more than five years	-	0.1	-	0.1
	6.9	8.5	3.8	4.7

At 31 December 1997 the Company and its UK subsidiaries had contingent liabilities of £67.6m (1996 £64.3m) in connection with guarantees relating to bank borrowings of certain overseas subsidiaries. The maximum potential liability under those guarantees is £99.4m (1996 £121.4m). Contingent liabilities also exist in respect of cross-guarantees given by the Company and its UK subsidiaries to support some of the Group's UK bank borrowings.

29 Asbestos-related litigation

In the United States of America, T&N plc and two of its US subsidiaries ("the T&N Companies") are among many defendants named in numerous court actions alleging personal injury resulting from exposure to asbestos or asbestos-containing products. T&N plc is also subject to asbestos-disease litigation, to a lesser extent, in the UK. Because of the slow onset of asbestos-related diseases, the directors anticipate that similar claims will be made in the future. It is not known how many such claims may be made nor the expenditure which may arise therefrom. Provisions are, however, made in respect of both known and possible future claims, on the following bases.

Claims Notified after 30 June 1996

As announced on 27 November 1996 the Company has secured, by payment of a premium of £92m, a £500m layer of insurance cover which will be triggered should the aggregate number of claims notified after 30 June 1996, where the exposure occurred prior to that date ("IBNR claims"), exceed £690m.

This, together with recent claims experience and medical information, enabled the directors of the company during 1996 to estimate the cost of IBNR claims with reasonable accuracy. Accordingly, provision was made of £550m during the year ended 31 December 1996 for IBNR claims at 30 June 1996 (being a point between the high (£690m) and low (£429m) estimates prepared by actuaries using assumptions referred to below). The provision was made on a discounted basis, using a rate of 7%. The directors intend to set aside this provision in a separate fund, and the provision established in 1996 of £327m allowed a margin to enable this to be phased in accordance with the assumptions over a period of approximately 36 months. Tax relief is available on this provision when payments are made. At 31 December 1997, the provision amounted to £300.0m and the fund established for IBNR claims stood at £78.2m. Details of the movement in the IBNR provision are set out in Note 20.

Claims notified and outstanding at 30 June 1996

As regards claims notified and outstanding at 30 June 1996 in the UK, full provision is made in respect of such claims, based on estimates agreed with the Company's external litigation lawyers.

As regards claims notified and outstanding at 30 June 1996 in the US, provision continues to be made based on data provided by the Center for Claims Resolution (CCR), who T&N has appointed as its exclusive representative in relation to all asbestos-related personal injury claims made against the T&N Companies in the United States. In estimating the provision, the directors have had regard principally to the industry in which the plaintiff claims exposure, the alleged disease type, the State in which the action is being brought and the share which will be applicable to the T&N Companies having regard to the agreed method of operation of the CCR (as described in the Directors' Report). Such shares may in certain circumstances be subject to retroactive adjustment. Even where settlement has already been agreed in principle with plaintiffs' lawyers in respect of a group of cases, the actual cost of each claim to the T&N Companies may not be determined until it is finally processed and paid sometime in the future.

Contingent liability

Accordingly, although the directors believe that they have made appropriate provision for claims, because of the factors described in this note, there are contingencies in relation to the amount at which such claims will be finally settled.

Given the substantial layer of insurance cover, one contingency in relation to IBNR claims concerns claims exceeding the amount provided, but below the level of insurance cover. This amounts to £140m gross, and £58m when discounted. The directors also recognise the importance of setting up a separate fund in accordance with the assumptions used in arriving at the discounted provision. During 1997 the sum of £88.2m was put into such a fund.

In arriving at the IBNR provision, assumptions have been made regarding the total number of claims which it is anticipated may be received in the future, the average cost of settlement (which is sensitive to the industry in which the plaintiff claims exposure, the alleged disease type and the State in which the action is being brought), the rate of receipt of claims and the timing of settlement and the level of subrogation claims brought by insurance companies.

So far as relates to claims reported at 30 June 1996, T&N is primarily exposed to differences between the assumptions referred to above and the actual claims settlement experience as it emerges.

US property damage litigation

Following the successful jury verdict in the Chase Manhattan property damage case in December 1995, judgment was entered in the Company's favour on all counts during the year. The Chase Manhattan Bank has appealed against the decision in the Company's favour. That appeal is still pending. The Company has received legal advice that such appeal stands no realistic prospect of success. Full provision has been made in respect of the anticipated legal costs which may be incurred in relation to the Chase Manhattan case, and for the other three remaining property claims.

Principal subsidiary and associated undertakings At 31 December 1997

Holding Companies

T&N Holdings Ltd	UK
T&N Industries Inc	US
T&N France SA	France
T&N Holdings GmbH	Germany
T&N Holdings Ltd (50.8%)	South Africa

Piston Products

AE Goetze Automotive Ltd	UK
AE Goetze Special Products Ltd	UK
AE Goetze Chasseneuil	France
AE Goetze Garennes SA	France
AE Goetze GmbH	Germany
AE Goetze SpA	Italy
AE Goetze Inc - South Bend	US
AE Goetze Inc (75%)	US
AE Goetze Inc - Carolina	US
AE Goetze Lake City	US
AE Goetze - Flowery Branch, LLC	US
AE Goetze Argentina SA	Argentina
AE Pistons (Pty) Ltd (50.8%)	South Africa
König KG (33%)#	Austria
Goetze (India) Ltd (25%)#	India
AE India Pistons Precision Products Ltd (50%)#	India
India Pistons Ltd (30%)#	India
Goetze Istanbul Segman (50%)#	Turkey
Istanbul Motor Pistons (42.5%)#	Turkey
Dongsuh Industrial Company Ltd (50%)#	South Korea
Anqing TP Goetze Piston Ring Company Ltd (35.7%)#	China

Friction Products

Brake Linings Ltd	UK
Ferodo Ltd	UK
Ferodo a.s.	Czech Republic
Ferodo Abex SA	France
Ferodo Beral GmbH	Germany
Ferodo India Pvt Ltd	India
Ferodo Italiana SpA	Italy
Ferodo Necto SA	Spain
Ferodo America Inc	US
Ferodo Automotive Products Inc (70%)	US
SAFA, LLC (40%)#	US
Varga Ferodo SA (49%)#	Brazil
T&N Friction Products (Pty) Ltd (50.8%)	South Africa
Japan Brake Industrial Company Ltd (15%)*	Japan
Korea Beral Ltd (39%)#	South Korea
Wuhan Huazhong Ferodo Friction Materials Company Ltd (70%)	China

Bearings

The Glacier Metal Company Ltd	UK
Glacier Vandervell Ltd	UK
Glacier Gleitlager HmbH	Austria
Glacier SIC	France
Glacier TLC SA	France
Glacier GmbH - Deva Werke	Germany
Glacier IHG Gleitlager GmbH	Germany

Bearings continued

Glacier Vandervell GmbH	Germany
Glacier Vandervell Srl	Italy
Glacier Clevite	US
Glacier Vandervell Inc	US
Garlock Bearings Inc (20%)#	US
AE Bearings (Pty) Ltd (50.8%)	South Africa

Engine Parts Aftermarket

AE Auto Parts Ltd	UK
AE Curty SA	France
Goetze Motorenteile GmbH	Germany
AE Italia Srl	Italy
AE Clevite Inc	US
AE Engine Parts (Pty) Ltd (50.8%)	South Africa
AE Components Eastern Ltd	Hong Kong
Goetze Istanbul Motor Pistons (50%)#	Turkey

Sealing Products

Coopers Payen Ltd	UK
Curty Payen SA	France
Goetze Payen GmbH	Germany
Tako Payen SpA	Italy
McCord Payen Inc	US
McCord Leakless Sealing Company (50%)#	US
Payen Components Ltd (50.8%)	South Africa
Sanwa Packing Industry Company Ltd (10%)*	Japan
Nanchang Payen Company Ltd (80%)	China
Talbro Automotive Components Ltd (30%)#	India

Composites and Camshafts

Composites

T&N Composites Ltd	UK
T&N Industrial Products Ltd	UK
Bentley-Harris SA	France
Bentley-Harris Inc	US

Camshafts

Weyburn-Lydmeth Ltd	UK
Weyburn-Bartel Ltd	UK
Weyburn-Bartel GmbH	Germany
Weyburn-Bartel Inc	US
Weyburn-Bartel de Mexico SA de CV	Mexico

Powder Metal Products

Brico Engineering Ltd	UK
Brico Metals Inc	US
Comtech (75%)	US
Sintertech	France
Brico Goetze (India) Ltd (65.3%)	India

Heat Transfer Products

FHE Automotive Technologies (Pty) Ltd (50.8%)	South Africa
Silverton Engineering (Pty) Ltd (50.8%)	South Africa
Silverton Services Ltd (50.8%)	South Africa

Apart from T&N Holdings Ltd, the UK companies are constituted as branches of T&N plc. All are registered in England and Wales. Investments in overseas companies are held by subsidiaries of T&N plc. The companies are incorporated and operate principally in the countries indicated. Equity capitals are wholly owned, unless otherwise shown, and consist of ordinary shares. The auditors of T&N, KPMG Audit Plc and its associates, audit all the Group's principal subsidiaries. A full list of Group companies will be included in the Company's annual return.

Associated undertakings * Trade investments

Five-year record Year ended 31 December

Results	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover (including share of associated undertakings)	1,883	2,038	2,164	1,936	1,662
Value added	968	966	1,062	996	847
Operating profit before asbestos-related costs	177	179	227	180	123
Asbestos-related costs	—	515	51	140	21
Profit/(loss) before taxation	190	(388)	120	11	70
Earnings	122	(401)	70	(16)	41
Capital expenditure	104	114	152	133	89
Capital employed					
Fixed assets	760	757	853	801	793
Other assets less liabilities	(356)	(414)	31	30	88
	404	343	884	831	881
Financed by					
Shareholders' interest	192	118	548	513	559
Minorities	25	25	26	16	14
Equity	217	143	574	529	573
Net borrowings	187	200	310	302	308
	404	343	884	831	881
	%	%	%	%	%
Operating profit (before asbestos-related costs) to average capital employed	47	29	26	21	15
Operating profit (before asbestos-related costs) to turnover	10	9	11	9	7
Average no. of employees	29,634	33,893	42,657	42,805	40,978
	m	m	m	m	m
Average no. of shares*	534.5	531.6	530.2	514.5	477.6
Shareholders' interests per share					
	p	p	p	p	p
Earnings*	22.9	(75.4)	13.3	(3.2)	8.6
Earnings before asbestos-related costs*	20.4	14.8	22.7	19.3	12.6
Dividends*†	9.2	3.00	6.00	10.85	10.66
Net assets	36	22	103	97	111

* Adjusted for bonus and rights issues

† The total dividends declared for 1996 were 3.00p per share. However, the directors declared a special first 1997 interim dividend of 3.00p in lieu of the final 1996 dividend.

Corporate information

Head Office and Registered Office
Manchester International
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Manchester M22 5TN
Telephone 0161 955 5200
Facsimile 0161 955 5202

Registrars and Transfer Office
Lloyds Bank Registrars
54 Pershore Road South
Kings Norton
Birmingham B30 3EP

Merchant bankers
Goldman Sachs & Co
N M Rothschild & Sons Limited

Stockbrokers
Hoare Govett Securities Limited
James Capel & Company Limited

Principal bankers
Lloyds Bank PLC
National Westminster Bank PLC

Company registration number: 163992